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THE EUROPEAN RECOVERY PROGRAM

A Summary of Reports by the Committee of European Economic Cooperation on Needs and Plans for Rehabilitation and of United States Government Reports on Economic and Financial Capacities for Assistance and Proposals for International Aid

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PREFACE

This issue of *International Conciliation* has attempted to summarize the reports relating to the European Recovery Program, prepared by the Committee of European Economic Cooperation, by three United States Government Committees, and by a Select Committee on Foreign Aid of the House of Representatives.

A summary of these important and voluminous reports should prove helpful to those who have neither the time nor the means for extensive research but are interested in the documentary basis upon which vital decisions will be made. In preparing this summary, all major documents up to and including the President's speech to the Joint Session of Congress on November 17 have been reviewed.

The introduction and first chapter of this issue cover in a general way the various reports and proposals which have been made to date. The second chapter deals with the main elements of the report by the Committee of European Economic Cooperation as the basis for any consideration of European needs. The third chapter, summarizing the reports which have been issued by United States Governmental and Congressional agencies, is concerned primarily with the productive capacities and resources of the United States for a substantial program of aid. The final chapter discusses the administrative machinery which will be required to carry out the European Recovery Program, as advocated by the various United States reports, and also the interim aid to France, Italy, and Austria which is indispensable in relation to any long-range plan to meet the critical problems facing the European nations and the United States.

This issue has been prepared by Melvin J. Fox and Miss Anne Winslow of the Endowment staff.

NICHOLAS MURRAY BUTLER
President Emeritus

New York, November 20, 1947.

THE EUROPEAN RECOVERY PROGRAM

Introduction

The European Recovery Program which has generally been referred to as the "Marshall Plan" will be the leading issue before the United States in the months to come. The "simple suggestion" of Secretary Marshall in his speech at Harvard on June 5 unleashed a series of developments vitally affecting two continents. In response to Secretary Marshall's suggestion that the European nations draw up in collaboration with each other a program of action and a balance sheet of needs, sixteen Western European nations met in Paris on July 12—Austria, Belgium, Denmark, Eire, France, Greece, Iceland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom. Within two months, a Committee of European Economic Cooperation, consisting of these nations, had drawn up an analysis of their respective economies, an inventory of needs and a program for economic recovery and rehabilitation over the next four years. On September 22 a 690-page joint report, which had been unanimously adopted, was presented to Secretary of State Marshall.

While the Committee of European Economic Cooperation was at work, voluminous studies were initiated by the United States Government. A Committee under the chairmanship of Secretary of Interior Krug examined "the state of the national resources" in the United States; the President's Council of Economic Advisers analyzed "the impact of foreign aid upon the domestic economy"; a committee of eighteen private citizens under Secretary of Commerce Harriman prepared an overall study of "the limits within which the United States may safely and wisely plan to extend the amount of assistance needed to restore Europe to sound production, problems of distribution and the international exchange of goods." A House Select Committee on Foreign Aid under the chairmanship of Representative Charles A. Eaton inaugurated a field study in Europe under the direction of the Vice-Chairman, Representative Christian A. Herter, and subsequently published

its findings. These four reports cover 916 pages of text and tables

The Committee of European Economic Cooperation reported that during the period 1948–51 assistance from non-European sources to the amount of $22.44 billion would be needed to provide the imports required for the completion of a recovery program. Approximately 70 per cent of the total would be spent for food, fuel, and fertilizer.

Secretary Marshall in his statement on November 10 to a joint session of the Senate Foreign Relations Committee and the House Foreign Affairs Committee estimated that the total aid required from the United States Treasury would be in the neighborhood of 16 to 20 billion dollars. The Committee headed by Secretary Harriman gave its estimate as somewhere between 12 and 17 billion dollars. Both Secretary Marshall and the Harriman Committee agreed that for the first year approximately $6 billion would be needed. Inevitably any estimates beyond the first year are largely guesswork. It is impossible to foretell accurately the magnitude of harvests, the rate of production, price levels or even the rate of imports, especially of capital equipment, which can effectively be absorbed by the European economy. Both the Marshall and Harriman figures are limited to estimated expenditures by the United States Treasury and do not include either private financing or loans from the International Bank for Reconstruction and Development. The Harriman Committee has placed optimum reliance on these sources—4 to 5 billion dollars from private investment and about 3 billion dollars from the Bank.

While this program was being studied, it became apparent that because of rapidly dwindling supplies of food and fuel coupled with the complete exhaustion of dollar resources in Austria, France, and Italy, assistance for these countries could not be delayed until an overall plan for European Recovery had been approved. On October 23, therefore, President Truman asked Congress to reassemble on November 17 to consider the question of interim aid. The President estimated the cost of interim aid until March 30 to be $597 million.

The reports here summarized do not in any sense comprise a formal program for long-range European recovery. They are studies and recommendations from various points of view, providing a basis on which that program will be developed for formal submission by the Government to the Congress.

Chapter I

BACKGROUND

The unprecedented inventory of the needs and resources of Western Europe and of the United States in relation to requirements for European reconstruction—now officially referred to as the European Recovery Program—is part of the orderly development of our post-war foreign economic policy and of the continuing effort both here and in Europe to solve the difficult problems of post-war economic adjustment through international cooperation.

War-Time Steps in International Cooperation

In Europe this effort goes back to the darkest days of 1941. In September of that year the Inter-Allied Committee on post-war requirements was set up in London to develop a common program of cooperation to deal with the emergency requirements of the devastated areas. Each country was charged with the preparation of estimates of the kinds and amounts of urgent imports as well as a tentative order of priority for delivery. Although the United States had not yet entered the war, it promised assistance in carrying out the objectives. The United Nations Relief and Rehabilitation Administration, which was set up in November 1943, took over the work of the Inter-Allied Committee. Every participating country, including the United States, contributed to UNRRA either by direct financial assistance of approximately one per cent of national income or in the case of occupied countries by such goods and services as could be spared.

In January 1942 the Combined Shipping Adjustment Board[1] was established to facilitate shipping and to make allocations of cargo space on a priority basis. In June 1942 a Combined Food Board[2] was set up to allocate the dwindling supplies of essential

1 United Kingdom, United States. At approximately the same time a combined Raw Materials Board and a Munition Assignment Board were set up with the same membership. Similar joint efforts were made during the first World War. See *Allied Shipping Control: An Experiment in International Administration*, by J. A. Salter, Carnegie Endowment for International Peace, 1921, xxiv+372 pp.

2 Canada, United Kingdom, United States. These nations were also members of the Combined Production and Resources Board which was also created in June 1942.

foods. In 1946 the work of this latter board in screening requirements and programming of exports was expanded into the thirty-nation International Emergency Food Council, which recently has been reorganized into an eleven-nation International Emergency Food Committee of the FAO.

The Food and Agriculture Organization which had its inception in the Hot Springs Conference of 1943 was designed to cushion the shock of post-war adjustment and to develop constructive long-range plans in the field of agriculture. It has made a major contribution to a comprehensive knowledge of the available world food supply and of actual and potential shortages. As a result of the Special Cereals Conference held under its auspices in Paris in July 1947 participating countries pledged themselves to take a number of specific steps to assure maximum production and use of food products. An FAO Timber Conference in the spring of 1947 resulted in a long-range conservation program and an agreement to increase the felling of soft woods by 10 per cent as a temporary emergency measure.

The International Bank for Reconstruction and Development and the International Monetary Fund were created at the Bretton Woods Conference (July 1944) by the forty-four charter member nations to assist in post-war reconstruction and help restore and maintain international exchange stability.

In May 1945, three organizations were set up to deal with the most immediate and pressing post-war problems. The European Coal Organization with twelve members[3] and a number of associate members was created to allocate in an equitable fashion the inadequate coal supplies and to provide assistance on such problems as the provision of mining supplies and equipment.

The European Central Inland Transport Organization with thirteen members[4] was created to reopen the flow of continental traffic by rail, road, and water. It assisted in the restoration, allocation, and distribution of rolling stock, made studies leading

[3] The original members were Belgium, Denmark, France, Greece, Luxemburg, the Netherlands, Norway, Turkey, United Kingdom, and United States. Poland and Czechoslovakia joined subsequently.

[4] Belgium, Czechoslovakia, Denmark, France, Greece, Luxemburg, the Netherlands, Norway, Poland, U.S.S.R., United Kingdom, United States, and Yugoslovia.

to a more efficient organization of traffic and acted as a central clearing system for inter-European traffic operations.

The Emergency Economic Committee for Europe was concerned with the general problems of production, supply and distribution of food, seeds, fertilizers, timber, textiles, enemy exports, and raw materials.

As the machinery of the United Nations developed it began to consider the economic problems which had so far been handled by various separate international organizations. The Economic and Social Council asked its Economic and Employment Commission to make a study of the problems of reconstruction. At the suggestion of the Commission the Council created a Sub-Commission on the Economic Reconstruction of Devastated Areas. This in turn resulted in the establishment, in March 1947, of an Economic Commission for Europe—"for maintaining and strengthening the economic relations of the European countries both among themselves and with other countries of the world." This Commission has gradually assumed the essential responsibilities of the European Coal Organization, the European Central Inland Transport Organization, and the Emergency Economic Committee for Europe.

On the initiative of the Economic and Social Council, the first report on the net deficit requirements for certain devastated countries of Europe in 1947 was prepared by the United Nation's Secretariat. This study was presented to the Council in February 1947, and a number of supplementary reports have since been issued.[5]

United States Efforts toward Post-War Reconstruction

From the early days of the war, the United States Government took the leadership in creating international organizations designed to further international economic cooperation. Our initiative and leadership contributed substantially to the creation of the International Bank and Fund, the Food and Agriculture Organization, the International Trade Organization, and the United Nations

[5] *Financial Needs of the Devastated Countries*—Interim Report No. I, Department of Economic Affairs, United Nations, Lake Success, New York, June 1947.

itself. Our participation in world recovery went far beyond the mere creation of agencies. Since June 1945, we have made $16.3 billion available for world reconstruction.[6] Out of this total $12.2 billion were allocated to Europe, of which 9.3 were for the sixteen countries represented at the Paris Conference. Since the end of hostilities this aid has financed about two thirds of our huge export surplus which amounted to $8 billion in 1946 and has been running at the rate of $13 billion in 1947 as contrasted with an average before World War II (1936–38) of $0.5 billions.[7]

Genesis of the Marshall Plan

The problem of reconstruction in Europe, after the unparalleled destruction of the war, turned out to be far greater than war-time estimates had forewarned. This was officially recognized one month before Secretary Marshall's speech at Harvard University on June 5 by the then Under Secretary of State Dean Acheson in an address before the Delta Council at Cleveland, Mississippi, May 8, 1947:

> The facts of international life mean that the United States is going to have to undertake further emergency financing of foreign purchases if foreign countries are to continue to buy in 1948 and 1949 the commodities which they need to sustain life and at the same time rebuild their economies. No other country is able to bridge the gap in commodities or dollars. . . . Until the various countries of the world get on their feet and become self-supporting there can be no political or economic stability in the world and no lasting peace or prosperity for any of us. Without outside aid, the process of recovery in many countries would take so long as to give rise to hopelessness and despair. In these conditions freedom and democracy and the independence of nations could not long survive, for hopeless and hungry people often resort to desperate measures. The war will not be over until the people of the world can again feed and clothe themselves and face the future with some degree of confidence.[8]

The extraordinary explorations of the economies of Europe and

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[6] See appendix Table, p. 881

[7] Thus far in 1947, Europe, desperately in need of its own production, has been able to pay for only 15 per cent of its merchandise imports by sale of its goods to us.

[8] *The Development of the Foreign Reconstruction Policy of the United States*, State Department Publication 2912, September 1947.

the United States were set under way by the historic speech of Secretary Marshall:

. . . Europe's requirements for the next three or four years of foreign food and other essential products—principally from America—are so much greater than her present ability to pay that she must have substantial additional help or face economic, social, and political deterioration of a very grave character.

The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole. The manufacturer and the farmer throughout wide areas must be able and willing to exchange their products for currencies the continuing value of which is not open to question.

. . . . It is logical that the United States should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative.

It is already evident that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It would not be fitting for this government to draw up unilaterally a program designed to place Europe on its feet economically. That is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number of, if not all, European nations.[9]

The general scope of the present plan was indicated one week after the Harvard address by Benjamin V. Cohen, the Counselor of the Department of State:

We are now only beginning to realize how difficult is the task of

[9] *European Initiative Essential to Economic Recovery*, Department of State Publication 2882, European Series 25.

organizing peace under law and how great and continuing our efforts must be to achieve it. That is no reason for us to despair of success and to abandon our efforts. That is reason for us to quicken and redouble our efforts. . . .

If we are to assist in intelligent programs of economic aid for Europe, our first and primary objective should be to assist programs that will rebuild a self-supporting European economy. . . . Those who have been studying Europe's rudimentary rehabilitation needs tell us that Europe, including Great Britain, may require as much as five or six billion dollars a year for another three or four years to meet those needs.[10]

European Reaction

Secretary Marshall's "simple suggestion" as he has since termed it, received immediate acclamation, particularly from France and Britain, and the governments of both countries almost simultaneously initiated action to explore the problem.

On June 16, Mr. Bevin visited M. Bidault in Paris. After two days of exploratory conversations, the British and French foreign ministers issued a joint communiqué welcoming the proposals of the Marshall Plan, and invited the Soviet Government to associate itself with them in framing a reply to Mr. Marshall.

On June 27, Mr. Bevin, M. Bidault, and Mr. Molotov met in Paris to discuss the implications of the Marshall Plan and to seek some common ground for agreement. However, the insistence of the Russians that assets and needs be decided on a strictly national basis and their refusal to agree to any general European economic program resulted in the breakdown of these negotiations.

On July 3, Mr. Bevin and M. Bidault decided themselves to issue invitations to a conference in Paris to all other European countries except Spain. In addition to the United Kingdom and France, fourteen countries—Austria, Belgium, Denmark, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, and Turkey—sent delegates to the Conference to collaborate in setting up a temporary organization to bring together data on the basis of which a program of

10 Address before the National Convention of the U. S. Junior Chamber of Commerce, Long Beach, California, June 12, 1947. See State Department *Bulletin*, June 22, p. 1230.

European reconstruction could be developed. "The remaining European countries decided not to take part, and the Conference was therefore unable to deal with the European problems as a whole. It was hoped, however, that the non-participating countries would be able to associate themselves with the work of the Conference at a later stage, and this remains the hope."[11]

The Conference emphasized the great importance of speeding up the economic reconstruction of European countries suffering from the effects of the war and agreed "that this task would be facilitated by some form of economic assistance from the United States, similar to that proposed by Mr. Marshall in his speech on June 5, 1947."

The Conference considers that Europe should first help itself by developing its production of essentials. The support of the United States would be of decisive importance in enabling Europe to undertake this development and in supplying resources which will be lacking until the development of European production has been achieved. This would be the best way of assuring the economic recovery of the European countries and of safeguarding their independence.[12]

The Conference set up a Committee of Co-operation to define (a) The extent to which production in certain essential industries could be developed as a result of the efforts of each European country individually, on the one hand, and of inter-European exchanges of available resources, on the other. (b) The requirements, both in quantity and value, which could be met by outside economic help. These requirements shall include capital goods for an expansion of production and essential consumer goods (agricultural produce, coal, etc.) to maintain the economic life of Europe during the period in which the production of the individual countries is inadequate.[13]

To assist the Committee of Co-operation in its task Four Technical Committees were set up—Food and Agriculture, Fuel and Power, Iron and Steel, Transport.

The purpose of the report which emerged from the Committee of European Economic Co-operation and was presented to the

[11] *Committee of European Economic Cooperation: General Report.* Department of State, Publication 2930, European Series 28, Vol. I, p. 9. (Hereafter referred to as *CEEC Report.*)

[12] CEEC Report, Vol. I, pp. 63–64.

[13] CEEC Report, Vol. I, pp. 63–64.

United States Government on September 22 was to provide a survey of present conditions, an inventory of existing and potential resources and of essential needs to permit economic rehabilitation and reconstruction. The Paris report contains first, a statement, partly explicit but partly only implicit, of the economic ends to be attained; second, suggestions and statements of intent concerning the policies to be adopted as means to the attainment of these ends; and third, conditioning both the ends and the means, a guess as to Europe's capabilities, that is, what is physically possible. It is actually no more than a response to an American request for information and the result depends very largely on American decision.

The Disruption of European Economy

The report describes graphically the damage done to the European economic system by the war:

> The 16 participating countries with Western Germany have a total population of 270 millions. Most of them in normal times enjoyed a standard of living somewhat inferior to that of the United States and Canada, but higher than that of any other large aggregate of population in the world. They were able to do this firstly, because they had brought their industry and agriculture to a high standard of efficiency and secondly, because they derived a large income from international trade and commerce as well as invisible exports such as tourism, shipping, banking and insurance services and the foreign investments which they had gradually built up over centuries.
>
> As trading nations these countries were predominant. They had nearly one half of the world's international trade; they owned nearly two thirds of the world's shipping tonnage; and their income from foreign investments and other invisible exports was sufficient to purchase nearly one quarter of their imports from the rest of the world. This income from trade enabled them to buy the raw materials needed by their industrial plants and the food and feeding stuffs to sustain their population and agriculture.
>
> The industrial structure of Western Europe was based upon coal, steel and chemicals, and its output of these products in the period just before the war was slightly greater than that of the United States. Every part of this machine depended upon the efficient working of the other parts and none of the Western European countries was in a position to organize its industry effectively without the support of the others. . . .
>
> The exceptional degree of specializaton in the industry and agriculture of the participating countries and Western Germany was responsible for

their high standard of living, but it contained certain elements of weakness. The machine was highly developed and delicate. It depended for its efficient working upon the smooth working of international trade and the uninterrupted flow of goods and services. The war of 1939–45 destroyed this process, and a breakdown occurred which altered the whole basis of the economy of Europe. As time passed, it also became apparent that, even when the war had come to an end, the vital flow could not immediately be resumed. Allied victory had been obtained only at the price of the temporary destruction of some of the centers of production and the dislocation of the transport system, and by the sacrifices of shipping and foreign investments, upon which the essential imports had so heavily depended.[14]

The scale of destruction and the disruption of European economic life was far greater than that which Europe had experienced in the first World War. Industrial production in Belgium, France, and the Netherlands was reduced to 30–40 per cent of pre-war, and in Italy to only 20 per cent.

On the railways of all the participating countries—

300,000 freight cars (wagons) were destroyed out of a total of 2 million, and 800,000 freight cars were damaged; as regards locomotives, at the end of the war, in Greece, the number of locomotives left was only about 10 per cent of the pre-war stock;

in the Netherlands, only about 50 per cent of the pre-war locomotives were left, and only half of these were serviceable;

in France, only about 73 per cent of the pre-war locomotives were left, and of these only about 40 per cent were serviceable;

in Belgium only about 77 per cent of the locomotives were left, and of these, only about 38 per cent were serviceable;

in Italy, only about 62 per cent were left of which 37 per cent were serviceable.

On the waterways—

About 35 per cent of the Rhine Fleet were lost and 15 per cent were out of service.

Most of the important waterways were blocked and navigation was only possible on short stretches between obstructions, for example—

in France, out of 9,900 kms. of waterways, only 530 were open to traffic.

in Belgium, out of 1,600 kms. of waterways only 380 were open to traffic.

On the roads—

There was extensive damage, for example—

in France, 7,000 bridges were destroyed;

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[14] CEEC Report, *op. cit.*, Vol. I, pp. 4–5.

in Belgium, 1,120 bridges were destroyed.[15]

The merchant fleets of the participating countries suffered heavy war losses. Over 22 million gross tons of their ships were sunk, representing 62 per cent of the tonnage owned in 1938.[16]

The agriculture, trade and industry of European countries had been twisted out of shape by their own war effort or by policies imposed by armies of occupation. Great numbers of workers were displaced or deported. Overseas importers, deprived of the normal flow of supplies from Europe, transferred an increased part of their trade to the United States. Many of the main sources of supply of these sixteen countries were laid waste; the devastation in Eastern Europe and the Soviet Union cut off a major source of food and timber; the extention of the war into South East Asia upset Europe's trade balance with the United States which was partly financed by exports from South East Asia, and in addition led to a double loss to the European food supply; for the countries of South East Asia not only became incapable of sending their normal share of food exports to Europe but required and obtained food which would normally have come to Europe.[17]

In agriculture there was a general shift of production from animal products to grains, roots and vegetables, but even so there was a considerable reduction in the production of bread grains. On the Continent, supplies of fertilizers were deficient throughout the war, labour was inadequate, agricultural machines were run down and not renewed, while shortages of petrol not only reduced actual draught power but helped to restrict markets and hamper production. The campaigns of Liberation caused inevitable damage in many areas and hampered agricultural work in 1944–45, thus reducing still further the yield of the 1945 harvest. In that year the production of bread grains in the participating countries and in Western Germany was only two-thirds of the pre-war level. . . .

The fall in the production of coal in all the coal producing participating countries and of steel in the continental countries was particularly serious in view of the need of reconstruction in rail transport, shipping, housing and public utilities generally. Reduced production or pressing domestic needs meant inevitably that exports tended to take second place in the producing countries, and this resulted in a drastic decline in the exchange between European countries of coal and coke in particular, and also of various specialised steel products. Until this specialised trade could be resumed in some degree, a large amount of industrial capacity, notably in France and Italy but to some extent in all the countries, could not be restored to full production.

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15 CEEC Report, *op. cit.*, Vol. II, p. 321.
16 CEEC Report, *op. cit.*, Vol. II, p. 342.
17 CEEC Report, *op. cit.*, Vol. I, p. 5.

Equally serious was the effect of the serious decline in supplies of timber, another essential material for the construction industries. Home-grown timber had been drastically over-cut in the occupied countries and, even more so, in the United Kingdom. In Sweden the shortage of coal created bottlenecks which led to a heavy decrease in the surplus of timber available for exports. Moreover timber exports from other Baltic areas and from the U.S.S.R. had temporarily ceased.[18]

Extent of European Recovery

The existing framework of international organizations as well as the remarkable energy shown by the individual countries resulted in rapid progress in the initial phase of recovery:

Eighteen months after the end of fighting in Europe, industry and transport were moving again vigorously and the work of reconstruction was getting under way. This was made possible by the efforts of the European countries themselves, with generous assistance from the United States and other countries and from UNRRA. So successful were these efforts that by the end of 1946 industrial production in Belgium, France and the Netherlands had recovered to 85–95 per cent of the pre-war level, whilst Italian industrial production was back to 60 per cent of pre-war level. In the United Kingdom the process of demobilization of the war economy had been accomplished smoothly and the pre-war level of national output had been fully restored. In the Scandinavian countries production was steadily rising. In the case of agricultural production, which though hard hit by the war, had not declined to the same extent as industrial production, the beginning of recovery was evident in all countries in 1946. Indeed, the participating countries as a whole had made a good and resolute start on their task.[19]

Individual countries have made remarkable efforts to increase the production of transportation equipment in which they specialize. France increased her serviceable locomotives by one-third in the year after liberation, Belgium her serviceable waggons by 10 per cent, Italy her serviceable electric locomotives by 27 per cent, and the United Kingdom's volume of shipbuilding and ship repairing once again reached very high levels.[20]

At the end of the war most of the inland waterways were blocked to such an extent that navigation was only possible on short stretches between obstructions. All the bridges across the Rhine in Germany were destroyed, thus closing that great international waterway to traffic. Yet

18 CEEC Report, *op. cit.*, Vol. II, pp. 4–8.
19 CEEC Report, *op., cit.*, Vol. I, p. 7.
20 CEEC Report, *op., cit.*, Vol. II, p. 8.

by the end of 1945, the Rhine and Elbe were opened to traffic and, by the end of 1946, most of the waterways in Belgium, France, the Netherlands and Germany were back to nearly normal navigation. In France 4,695 temporary and 1,965 permanent bridges have been built since the war. In Belgium, 700 temporary and 232 permanent bridges have been built since the war.[21]

The transport situation was indeed not unlike the industrial situation as a whole. A sufficient impetus to production had been given to enable the various countries to make substantial progress at least in those industries which were most favourably situated or were given priority, e.g. chemicals and engineering in the United Kingdom, coal and textiles in France and Belgium, textiles in Belgium and Italy. But it was only in Sweden and Switzerland that most branches of industry exceeded pre-war levels.

In steel the position was somewhat different. Up to the end of 1946 output in the United Kingdom maintained the high level reached during the war. On the Continent, where steel output had sharply fallen, progress was hampered by shortages of coking coal, so that though output just reached 1938 levels, it could not make the further expansion needed to meet the greatly increased post-war demand which was made acute by the very low level of German production.

In agriculture progress was steady, and the 1946 harvest was very considerably better than that of 1945. Wheat production increased substantially in France and Italy but not up to the pre-war level. In Western Germany output was considerably below pre-war. On the other hand progress had been slower in the building up of live-stock numbers and in the restoration of agricultural fertility. Supplies of agricultural machinery, repairs to buildings and other essential equipment have been substantial, but fall far short of what is necessary to restore efficiency to the pre-war level in the most important producing countries, namely France and Italy.

In spite of high war expenditure and occupation costs, uncontrolled price inflation has been less evident after 1945 than it was after 1918. There has, however, been some inflationary increase in prices even where price control has been relatively effective. In these countries where price increases have been more serious, the restoration of general financial and economic equilibrium is a major and pressing problem.

So far as they were able, certain participating countries have since the war granted financial assistance to others. This amounted to the equivalent of $1,150 millions from the United Kingdom, over $300 millions from Sweden and over $130 millions from Switzerland. In addition, relief was extended by the United Kingdom through UNRRA and Civil Affairs

21 CEEC Report, *op., cit.*, Vol. II, p. 323.

channels and by Sweden and Switzerland through official, private and Red Cross channels.[22]

Europe Today

Despite these vigorous efforts of rehabilitation it became apparent in the early summer of 1947 that the hope for rapid and sustained recovery from the efforts of the war had receded. Coal production in Britain and Germany, the two principal sources of European supply, was considerably below expectation. In Britain this was due to an unusually severe winter and an acute shortage of skilled miners. The German economy was suffering almost a complete paralysis and the war damage to the mines was greater than had been foreseen.

The food deficit of Europe had assumed disastrous proportions—domestic production was suffering from six years of farming with little or no fertilizers, lack of tools and replacements for wornout machinery, and enormous loss of livestock and draft animals. This situation was seriously aggravated by two droughts preceded by the intensely cold winter that froze seed in the ground and spring floods that washed out crops and top soil, causing almost unprecedented crop failures. Furthermore, normal food imports were sharply curtailed owing both to world shortages and lack of European industrial exports to cover food deficit imports.

Industrial workers have been short of food, fuel and housing, all essential to sustain their morale and efficiency. In addition, it should be noted that in all countries but France there has been an increase in population, so that production would have to be considerably above pre-war levels to make up the accumulated need for consumers goods, and replacement parts for industry, as well as to meet the staggering requirements for reconstruction. All of these factors have combined to make it increasingly difficult for the European countries to finance essential imports from the United States for rehabilitation. The situation has become increasingly worse since the Committee of European Economic Co-operation in the summer of 1947 summed it up as follows:

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22 CEEC Report, *op., cit.*, Vol. II, p. 8.

The drain on dollar resources which has been threatening the whole of European recovery for many months has now become acute and is a world-wide problem. Not only are all European countries affected, but the shortage of dollars is also being severely felt in Canada and in Latin America, while the economic dislocation of S. E. Asia, China, Japan and the Philippines adds to the general difficulties. In the first half of 1947 the surplus in the United States balance of payments was running at the annual rate of $10,000 millions a year. The drain on dollar reserves and credits and on gold accelerated by the rise in cost of imports from the United States will, unless arrested by additional help, lead to drastic reduction of imports into Europe, which might well obliterate all that has been achieved during the past two years.[23]

The depletion of financial resources threatened the peoples of Europe "with an indefinite prolongation of insecurity and lower standards of living; unless drastic steps were taken to arrest the process, European production could never play its proper part in redressing the growing unbalance of the world economy."[24]

United States Stake in European Recovery

The problem which confronts the United States is not merely one of sympathetic understanding of the economic suffering of war-devastated Europe; it is primarily a realistic appreciation of the extent to which our own economy is bound up with that of Europe. Thoughtful people have long been aware that the post-war prosperity of the United States rests upon shifting sands so long as the economy of the rest of the world is critically endangered. Our stake in European Recovery is great because (a) our economy depends on flourishing world production and trade and (b) without the full contribution of the countries of Europe, world trade and production will stagnate:

Our economic self interest is closely related to the fate of Europe. American trade with Europe has always been a factor of paramount importance to the American economy. A progressive decline in the producing and buying power of 270,000,000 people in Western and Central Europe would have a powerful impact upon American prosperity. Moreover, prosperous conditions in Europe are essential to the maintenance

[23] CEEC Report, *op. cit.*, Vol. II, p. 13. This already has taken place. There are few countries without some restrictions against U. S. goods.

[24] CEEC Report, *op. cit.*, Vol. I, p. 8.

of American trade in other parts of the world. For example, South Africa, Australia, New Zealand, Canada, and the non-tropical countries of Latin America obtain, by means of export surpluses to Europe, the funds with which to pay for their import surpluses from the United States. Thus a disintegration of the European economy would curtail the power of these countries to buy United States goods.[25]

Every American wants peace and security, an opportunity to bring up and educate his family, and the right to make a decent living in a manner of his own choosing. There can be no lasting hope for these ideals here at home unless people throughout the world are encouraged to work diligently and effectively to achieve uninterrupted production of the things needed to prevent misery and starvation and economic want. The world possesses sufficient natural wealth to support its population, but only if this wealth is developed, utilized, and conserved wisely, through the sound exercise of human energy, knowledge, and judgment.

The revival of world-wide production and world trade leading to an intelligently balanced use of the world's resources is not only the ultimate solution to the problem of foreign rehabilitation but is also an essential to our own continued well-being and security. For just as no one nation can expect security or continued prosperity unless its neighbors are also fully productive and reasonably far-sighted in interchanging the things they have for products they require from other countries. Without a sound world economy, the United States cannot hope to provide the raw materials necessary for the peaceful development of its economy and cannot expect to be secure in its future.[26]

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25 *European Recovery and American Aid: A Report by the President's Committee on Foreign Aid*, Part Two, B2, Mimeograph Edition, November 1947. (Hereafter referred to as the Harriman Report.)

26 *National Resources and Foreign Aid*, Department of the Interior, October 1947, Mimeograph Edition, pp. v–vi. (Hereafter referred to as Krug Report.)

Chapter II

European Proposals for a Recovery Program

General Scope of Report

The examination of the problem of European recovery as it confronts the United States today necessarily begins with the report of the Committee of European Economic Co-operation (CEEC). This report recognizes two essential factors in the recovery of a healthy world economy: substantial United States assistance during the next few years, in the form of both capital and goods; the closest possible inter-European cooperation. Such cooperation is not new. To it may be attributed in no small measure the pre-war supremacy of Europe as the great industrial and financial center of the world:

> The structure of the European economy as it existed before the war was already a highly developed system of mutual help. It was founded upon the specialization of human skill and industrial capacity which was in fact responsible for the relatively high standard of living which these countries enjoyed in relation to their limited natural resources. The economic life of some of these countries was based largely upon supplying others; some of the participating countries are more closely integrated together than others, but between all of them there are close traditional links which form a natural bond, and which they have been striving to re-forge after the disruption of the war. It is therefore entirely natural that a complicated network of mutual help should exist, and that it should develop further as production grows.[1]

What is unparalleled is the magnitude of the contemplated cooperative effort, the breadth of vision and the degree of determination which is involved.

Each participating country has pledged itself:

(i) to develop its production to reach the targets, especially for food and coal;

(ii) to make the fullest and most effective use of its existing productive capacity and all available manpower;

(iii) to modernize its equipment and transport, so that labour becomes more productive, conditions of work are improved, and standards of living of all peoples of Europe are raised;

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1 CEEC Report, *op. cit.*, Vol. I, p. 30.

(iv) to apply all necessary measures leading to the rapid achievement of internal financial monetary and economic stability while maintaining in each country a high level of employment;

(v) to cooperate with one another and with like-minded countries in all possible steps to reduce the tariffs and other barriers to the expansion of trade both between themselves and with the rest of the world, in accordance with the principles of the draft Charter for an International Trade Organization;

(vi) to remove progressively the obstacles to the free movement of persons within Europe;

(vii) to organize together the means by which common resources can be developed in partnership.[2]

The production goals which the sixteen participating countries have set themselves, for the years 1948–51, range from the restoration to pre-war levels of cereal production and shipping facilities to an oil refining capacity two and a half times greater. This program is designed to reduce their trade deficit and that of Western Germany to proportions manageable through ordinary commercial channels by 1951.

The execution of such a program requires on the part of the European nations stringent economies and primary emphasis on the development of heavy industries. It is planned to supply from European production most of the capital equipment needed for expansion. This means that consumer goods will continue to be in short supply on practically a wartime basis:

The import requirements for 1950–51, assuming full success of the agricultural programmes, is equivalent to bread consumption of 179 Kg. per head or 7 per cent below pre-war. . . . Similarly the consumption levels aimed at in 1950–51 in framing the import requirements of sugar, meat and fats are below the pre-war level though above that which is now ruling.[3]

. . . in many countries restrictions on consumption of food, clothing and gasoline (for non-essential purposes) will continue to be necessary.[4]

. . . the estimates for wood pulp for paper-making were specially examined and it was decided to reduce the stated overall requirements in 1948–51 by 20 per cent because of world shortage of supplies; this adjustment

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2 CEEC Report, *op. cit.*, p. 13.
3 CEEC Report, *op. cit.*, Vol. I, pp. 47–48.
4 CEEC Report, *op. cit.*, Vol. I, p. 59.

reduced the requirements to approximately the rate of supplies available in 1947.[5]

Despite these economies and the maximum individual and co-operative effort the need for food, raw materials, fuel and capital from overseas is imperative.

The two key commodities are food and steel. Without substantial food imports actual starvation will exist in many countries, production will be slowed down materially and the inevitable concomitant of political unrest will develop. Without imports of steel, replacements of worn out equipment cannot be effected and the planned expansion of productive facilities becomes an impossibility. In addition to food and steel the list of essential imports include nitrogen, coal, petroleum products, scrap iron, timber, freight and passenger cars and various types of capital equipment including mining and electrical plant equipment and tractors. Furthermore, a certain amount of shipping space will be required while the participating countries are making good their wartime losses.

On the basis of this import program the report estimates a combined deficit with the American continent for the four-year period of $22.44 billion.

Anticipated import deficit with the United States:[6]

$6.10 billion in 1948
4.53 billion in 1949
3.35 billion in 1950
2.49 billion in 1951

Anticipated import deficit with the rest of American continent:

$1.94 billion in 1948
1.82 billion in 1949
1.30 billion in 1950

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[5] CEEC Report, *op. cit.*, Vol. I, p. 46.

[6] Although the CEEC Report does not distribute the net import deficit of dependent territories among the United States and other countries of the American continent, absorption of the following deficits by the United States has been assumed: $0.46 billion in 1948, $0.26 billion in 1949, $0.07 billion in 1950, and a net import surplus of $0.13 billion in 1951. See CEEC Report, *op. cit.*, Vol. I, p. 54, tables 11 and 12.

0.91 billion in 1951

Total anticipated import deficit:

$8.04 billion in 1948
6.35 billion in 1949
4.65 billion in 1950
3.40 billion in 1951

The CEEC states that if the acquisition of capital equipment should be financed by the International Bank for Reconstruction and Development the total import deficit would be reduced as follows:

$920 million in 1948
890 million in 1949
720 million in 1950
606 million in 1951

Production Goals

If this plan for assistance were carried through the participating countries would expect to achieve the following results by 1951:

(i) Restoration of pre-war bread grain and other cereal production, with large increases above pre-war in sugar and potatoes, some increases in oils and fats, and as fast an expansion in livestock products as supplies of feeding stuffs will allow.

(ii) Increase of coal output to 584 million tons, i.e. 145 million tons above the 1947 level (an increase of one-third), and 30 million tons above the 1938 level.

(iii) Expansion of electricity output by nearly 70,000 million Kwh or 40 per cent above 1947 and a growth of generating capacity by over 25 million Kw or two-thirds above pre-war.

(iv) Development of oil refining capacity in terms of crude oil throughout by 17 million tons to two and a half times the pre-war level.

(v) Increase of crude steel production by 80 per cent above 1947 to a level of 55 million tons or 10 million tons (20 per cent) above 1938.

(vi) Expansion of inland transport facilities to carry a 25 per cent greater load in 1951 than in 1938.

(vii) Restoration of pre-war merchant fleets of the participating countries by 1951.[7]

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7 CEEC Report, *op. cit.*, Vol. I, p. 14. These production figures include Western Germany. It should be noted that of the 80 per cent increase in crude steel production, 60 per cent is expected to come from the participating countries and 20 per cent from Germany.

Food and Agriculture

Western Europe has always imported substantial amounts of food to provide for her densely settled population. Much of this came from Eastern Europe, and Southeast Asia— sources largely cut off since the devastations of war. Domestic agriculture was maintained at a high level by means of specialized cultivation and intensive farming techniques. This depended on available supplies of fertilizers and the use of imported feed stuffs for livestock, thus saving domestic crops for direct consumption. Six years of war wrought havoc with this highly specialized production and has decimated livestock. Shortages of fertilizers and of feed stuffs are acute. Agricultural machinery has been largely destroyed or worn out.

To meet this situation and to provide for a population which in 1951 will exceed pre-war by 11 per cent, the participating countries have planned a vigorous production program:

> Outstanding examples are the cereals production programmes of France and Italy. These two countries are the largest producers of bread grains among the participating countries; and the former was before the war normally self-sufficient. In France bread grains production which before the war was 8.9 million tons had fallen to an estimated 3.8 million tons in 1947–48. By 1950–51 it is estimated again to reach 8.8 million tons. The corresponding figures for Italy are, pre-war 7.4 million tons; 1947–48, 4.7 million tons; and 1950–51, 7.1 million tons.[8]
>
> As their programmes develop, some countries' exportable surpluses will increase rapidly, and this will allow other participating countries either to increase their consumption or to reduce their imports from elsewhere. The exportable surplus of butter from certain participating countries will increase from 87,000 tons in 1946–47 to 154,000 tons in 1950–51; that of eggs from 52,000 tons to 223,000 tons; that of meat from 398,000 tons to 630,000 tons, and that of fruit from 550,000 tons to 1,911,000 tons. In the same way exportable surpluses of certain special products which now find difficulty in entering their pre-war markets will begin to move more freely. This is a natural form of mutual help which will grow automatically as the production programmes proceed.[9]

Thus production of the main crops in 1950–51 will be up to or in excess of the pre-war level. Livestock herds will be rebuilt and expanded and by 1950–51 cattle and poultry population in the participating countries

[8] CEEC Report, *op. cit.*, Vol. I, p. 16.
[9] CEEC Report, *op. cit.*, Vol. I, pp. 16–17.

and in Western Germany taken together will be greater than pre-war by 7 per cent and 13 per cent respectively, though pig numbers will still be 10 per cent less. In Western Germany cattle will be about 13 per cent and pigs and poultry 30 per cent or 40 per cent below pre-war figures.[10]

The participating countries also contemplate a possible increase in the fish catch from 3.7 million tons in 1934–38 and 3.5 million tons in 1946–47 up to a figure of 4.7 million tons in 1950–51.

There are also major development schemes in certain dependent overseas territories, particularly designed to increase the supplies of vegetable fats and oils. For example, the scheme in British East Africa should result in an output of decorticated groundnuts estimated at 80,000 tons in 1949, 255,000 in 1950 and nearly 400,000 in 1951. The new plantation schemes in French Equatorial and West Africa have as their target an output in 1951 of 100,000 tons of decorticated groundnuts.[11]

Production of coarse grains is to be increased from 27.3 million tons in 1946–47 to 31.8 million tons in 1950–51 as compared with 30.5 million before the war. Oilseed production is also to be increased; this increase needs to be supplemented by additional imports of oilseed and, if so supplemented, will result in a big rise in the output of oilcakes for animal feed in the participating countries.[12]

As far as imports are concerned, the CEEC has estimated cereal requirements including bread grains and cereal feed stuffs at approximately 30 million tons for each of the four years. This, however, substantially exceeds available supplies according to the estimates both of the International Emergency Food Council and the Special Cereals Conference.

The Committee has, therefore, decided without prejudice to discussions on allocations, to assume a total availability for participating countries for 1947–48 of 20 million tons. This is a very low figure. . . .[13]

It is in fact approximately 5 million tons less than pre-war average annual imports when domestic agriculture was at its peak.

Indeed, in view of the serious drought in many European countries during the summer of 1947, import requirements of cereals or substitute feeding stuffs are higher than stated. Thus, there is a grave danger of a

10 The question of increasing livestock herds is one of the more complicated in view of the acute grain shortage, involving a decision as to how much grain should be fed to livestock and how much retained for human consumption.

11 CEEC Report, *op. cit.*, Vol. I, p. 73.

12 CEEC Report, *op. cit.*, Vol. I, p. 76.

13 CEEC Report, *op. cit.*, Vol. II, p. 52.

depletion of livestock which would mean a capital loss that would greatly retard the implementation of the production programme.[14]

On the basis of the "anticipated reappearance of traditional exportable surpluses in the U.S.S.R. and Eastern Europe,"[15] it is hoped to raise this figure to 25 million tons during the following three years.

The participating countries will continue to have to rely on the United States for from 10 to 9 million tons a year, and on the rest of the American Continent for another 8 to 10 million tons annually.[16]

Another item in short supply is oilcake which is of major importance in supplementing home-grown winter fodder for dairy cattle.

The total import requirement stated for the period 1947–48 is approximately 3½ million tons. The availability for the calendar year 1947, taking into account the international allocation of oilcake as such and the production of oilcake from domestic and colonial oil seeds, can be estimated at 2 million tons. There is thus a deficiency of 1½ million tons or 40 per cent of the total import requirement. If the increase in estimated fat supplies mentioned earlier is achieved, the total supply of oilcake might rise to 4.2 million tons for the year 1950–51. This would compare with a total import requirement of 5.4 million tons, leaving a deficiency of 1.2 million tons or 20 per cent of the total. The Committee has decided to assume an average deficiency for each year of 1.5 million tons.[17]

Fertilizers

A basic prerequisite for the agricultural program is the restoration of soil fertility. Special emphasis is being laid on nitrogen as the only fertilizer providing effective aid for quick crop production:[18]

It is estimated that the deficit of nitrogen in the participating countries including dependent oversea territories and Western Germany for 1947–48 amounts to 290,000 tons or 19 per cent of the total requirement of approximately 1½ million tons. This deficiency may be increased if the

14 CEEC Report, *op. cit.*, Vol. II, p. 52.
15 CEEC Report, *op. cit.*, Vol. II, p. 46.
16 CEEC Report, *op. cit.*, Vol. II, p. 46.
17 CEEC Report, *op. cit.*, Vol. II, p. 52.
18 There are adequate supplies of the other two basic fertilizer materials—potash and phosphates—needed for long-term rehabilitation of soil fertility.

production targets of Italy and Germany are not attained. Largely because of lack of coal, it is doubtful whether the deficiency could, in the time available, be made good by an increase in European production itself. The gap must therefore be covered by imports. Only approximately 70,000 tons are at present programmed for import into the participating countries from North America. If no more is made available, there will still remain a substantial deficit.

For the crop year 1948–49 there is an import deficit of 229,000 tons or 13 per cent of the total requirement. This can only be met by imports from outside the participating countries.

For the year 1949–50, taking into account new plants now being planned, e.g. in Greece, and some unused capacity, e.g. in Austria, there will be sufficient capacity in Europe to meet almost all the requirements of the participating countries themselves, although there will still be a deficit of about 60,000 tons for dependent overseas territories.[19]

By 1950–51, the report continues,

nitrogen production, which was 960,000 tons in 1946–47, is to be increased to over 2 million tons. . . . Production of manufactured phosphatic fertilizers . . . is to be raised from 1.4 million tons in 1946–47 to 2.6 million tons in 1950–51. The production of potash . . . which was 847,000 tons in 1946–47 is to be raised to 1.6 million tons in 1950–51.[20]

Agricultural Machinery

The production of agricultural machinery with the exception of tractors

is expected to rise from 922,000 tons in 1947–48 to nearly 1½ million tons in 1950–51. Total production over the four years amounts to 4.9 million tons, of which France accounts for 2.1 million, the United Kingdom 1.2 million, Western Germany 0.8 million, Italy 0.2 million.[21]

There is an urgent need for tractors, spare parts, and agricultural machinery, particularly during the first year, which can only be met by imports from countries other than those represented at the Conference and Western Germany. Requirements for tractors of 30 h.p. and for light tractors are estimated at 16,000 and 14,000 respectively during the first year. The overall estimates for the four-year period are 50,000 heavy tractors and $700 million worth of machinery and spare parts.

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19 CEEC Report, *op. cit.*, Vol. II, p. 50.
20 CEEC Report, *op. cit.*, Vol. I, p. 75.
21 CEEC Report, *op. cit.*, Vol. I, p. 75.

Coal and Mining Equipment

Before the war, the participating countries, together with Western Germany, accounted for 85 per cent of the total hard coal production in Europe. Of the remaining countries, only Poland and Czechoslovakia enjoyed any substantial production. . . .[22]

By the end of the war production generally was at a low level and was at a complete standstill in the Ruhr and Lorraine. Normal constructive developments and replacements of worn out machinery had, of necessity, been suspended. There was, furthermore, an acute shortage of skilled miners everywhere.

Although recovery has been retarded owing principally to the effect upon English coal production of the severe winter of 1946–47, substantial progress has been made and considerable increases are expected:

Practically all countries share in this planned increase. As compared with 1938 the production estimates for 1951 amount to 112 per cent for the participating countries; (105 per cent for Belgium, 131 per cent for France, 97 per cent for the Netherlands and 108 per cent for the United Kingdom). For the Saar, the corresponding figure is 117 per cent, whereas for the Ruhr the figure is 87 per cent. If, however, the comparison is made with 1946, the appropriate percentages are as follows: Participating countries 131 per cent, Belgium 136 per cent, Netherlands 150 per cent, Ruhr 219 per cent, Saar 213 per cent, and the United Kingdom 129 per cent.[23]

In the United Kingdom the expansion planned by the National Coal Board is based on an increase in trained manpower, intensive exploitation by modern mechanised methods, and capital developments including some 20 new pits, new washing plant and underground locomotive haulage. Every effort is being made to resume exports to other participating countries as soon as possible after April 1948, rising from an estimated six million tons in 1948 to 29 million tons in 1951. These figures are exclusive of bunker shipments for world shipping.[24]

In the Bi-Zone of Western Germany there will be an increase of 60 million tons in 1951 compared with 1947, but the extent of devastation has been so great that the 1938 output will not be regained in this period. In the Saar, production will reach the 1938 level in 1948, and will in 1951 be 20 per cent above it. In France, too, where production already is over pre-war level, a further expansion of 12 million tons or 25 per

[22] CEEC Report, *op. cit.*, Vol. II, p. 132.
[23] CEEC Report, *op. cit.*, Vol. II, p. 143.
[24] CEEC Report, *op. cit.*, Vol. I, pp. 81–82.

cent is planned by 1951. The net result is that for the participating countries and Western Germany as a whole production in 1951 will be 30 million tons higher than in 1938.[25]

It is not anticipated that the present coal shortage will be of long duration and every effort will be made to reduce imports from the Western Hemisphere as rapidly as possible in view of the substantially higher cost as compared with either domestic or other European sources.

On the basis of figures supplied by the E.C.O. the probable scale of Polish coal exports to the West in each of the next four years may be 16, 24, 27 and 30 million tons respectively. Adding one million tons from other sources, the final deficit to be met by imports from the United States should be reduced from 41 million tons in 1948 to 25 million in 1949, 14 million in 1950 and six million in 1951, after which it may be expected to disappear.[26]

Coke, as contrasted with the general availability of coal, represents a rather special problem:

A first examination of the coke position suggested that, against requirements estimated at 65.6 million tons in 1948, only 53.0 million tons would be available. This deficit of 12.6 million tons was due mainly to the lack of exports of coking coal from the United Kingdom and the decline in exports of coking coal and coke from Western Germany. It was considered that an attempt should be made to bridge this gap by (1) diverting coke from non-metallurgical uses, (2) reducing coke consumption by the use of richer iron ores in blast furnaces and (3) securing a larger proportion of coking coal in exports from the United States, United Kingdom and Poland.[27]

In addition to imports of coal it is estimated that about 220 million dollars of mining equipment will be required to place mining operations upon an efficient basis.

Electricity and Electrical Equipment

Before the war the consumption of electricity was relatively low, amounting per head of population to a little over half that of the United States, and its production depended largely upon coal.

Most of the participating countries had sufficient generating plants to

[25] CEEC Report, *op. cit.*, Vol. I, p. 18.
[26] CEEC Report, *op. cit.*, Vol. I, p. 83.
[27] CEEC Report, *op. cit.*, Vol. I, p. 94.

supply almost the whole of their own electricity requirements. Each of these countries also had sufficient spare plant to ensure an adequate and regular supply of electricity at normal frequency and voltage.[28]

However, because of the increasing power requirements

extensive plant extension programmes were in hand at the time of the outbreak of war.

One of the first results of the war was the slowing down or the complete abandonment of long-term programmes for new generating plant in favor of more urgent war needs. This was the case not only in countries occupied by the enemy, but also in others. In addition, due to a variety of causes, the output capacity available from the existing plant was considerably reduced, in some cases permanently and other cases temporarily until repairs could be made.[29]

As a result, a special supplementary generating plant extension programme has been worked out, which for convenience can be referred to as "the International Programme." This programme comprises 9 main installations, of which 5 would be located in Italy (4 hydro-electric and one geo-thermic), one served by the Rhine on the Franco-German frontier, one situated in Austria but served by water from Switzerland and Italy, and two in Western Germany (brown coal). The combined installed capacity would be 2.3 million kilowatts and average annual output 6.6 billion kilowatt-hours. Most of this capacity could be completed within four years. The installations have by unanimous agreement been selected on a purely economic basis and without regard to national frontiers.[30]

To carry out this program the CEEC has roughly estimated its import requirements as follows: Items of specialized equipment and equipment for special purposes such as machine tools for factories and heavy plant for reservoir construction about 300 million or 6 per cent of the total estimated cost of the projects. Further developments envisaged would add another $200 million for supplementary imports of raw materials and complete machinery.

Petroleum and Petroleum Equipment

The Report emphasizes the importance of oil as a major source of power to modern civilization:

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[28] CEEC Report, *op. cit.*, Vol. II. p. 168.
[29] CEEC Report, *op. cit.*, Vol. II, pp. 168–169.
[30] CEEC Report, *op. cit.*, Vol. I, p. 87.

In view of the relatively minor contribution which indigenous petroleum production in the participating countries and Western Germany can provide towards meeting requirements, and their consequent dependence on oversea supplies, petroleum presents an essentially different picture from that for other sources of power, in that there is no foreseeable prospect of the countries in question becoming self-sufficient in this respect. Imports into virtually all these countries from overseas will have to be maintained, and it is reasonable to hope for a continuation of supplies from the American continent, but possibly at a reduced rate.[31]

Strenuous efforts are being made to rehabilitate and develop British, French, and Netherlands oil industries in oversea territories. For this as well as for plants in the participating countries and Western Germany an estimated total for the four-year period of 588.2 million dollars of specialized oil equipment will be required from the United States.

Iron and Steel

The key to the whole recovery program is steel and if the present shortages cannot be overcome the adverse effects upon the economies of the sixteen participating countries and of Western Germany may be crucial:

Before the war the output of the iron and steel industry in the participating countries and Western Germany was sufficient to supply the consumption needs of the area and to provide substantial exports to overseas markets. The French, Belgian, and Luxemburg industries were based to a large extent on coke and coking coal from Western Germany. Now, as a result almost entirely of lack of fuel, the industry is working at a level which is inadequate to meet the wants of the participating countries as well as to provide the steel and the steel manufactures which the area must export if it is to be able to buy the foodstuffs and raw materials needed from overseas. Even with the aid of supplies of finished steel from the United States, the participating countries as a group are failing to balance their steel budget in 1947 by as much as 25 per cent.[32]

A number of the participating countries are planning modernization and expansion programs designed to achieve "a balanced steel industry, concentrated round integrated plants with consequent increased fuel and labour efficiency."[33] The United Kingdom is

31 CEEC Report, *op. cit.*, Vol. II, p. 192.
32 CEEC Report, *op. cit.*, Vol. II, p. 246.
33 CEEC Report, *op. cit.*, Vol. II, p. 262.

planning to increase capacity for crude and semi-finished steel and expects by 1951 to have replaced much of the obsolescent plant. By 1955 "crude steel capacity will have increased to 16.3 million tons with an output in normal times of about 15.2 million tons a year."[34]

The Monnet plan of the French Government is designed to raise capacity to about 13½ million ingot tons, based principally on the ore-fields of Lorraine. During the next four years attention will be primarily devoted to "the modernization of present equipment and an economic re-arrangement of output."[35]

Belgium and Luxemburg plan to increase finishing capacity. The Netherlands intend "to expand production of crude and finished steel, although remaining an importer of pig iron. The Turkish programme is to modernize the existing finishing equipment, and to extend ore mining, open-hearth furnaces, and finishing mills. . . . The Italian programme concentrates mainly on modernization and repair of existing plant."[36]

Full use of existing capacity can be made only if

(i) there is an increase of over 50 per cent in the supplies of coke available to the industry, compared with 1947;

(ii) imports of scrap or pig iron can be obtained from United States; and

(iii) there is a substantial increase in imports of American semi-finished steel.[37]

Import requirements for scrap rise from 1.51 million tons in 1948 to 2.35 million tons in 1951.

This increase is mainly due to the estimated decline, in the course of the period, of exports of scrap from Western Germany. The figures . . . are based on the assumption that adequate coke supplies will be available to the steel industry. If this assumption is not fulfilled, there will be a higher demand for scrap, adding to the net import requirement.[38]

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34 CEEC Report, *op. cit.*, Vol. II, p. 263.

35 CEEC Report, *op. cit.*, Vol. II, p. 264.

36 CEEC Report, *op. cit.*, Vol. II, pp. 262–263.

37 CEEC Report, *op. cit.*, Vol. II, p. 272.

38 CEEC Report, *op. cit.*, Vol. II, p. 259. Scrap and pig iron are the basic ingredients used in making steel. The proportion can vary greatly depending upon supply. As coke is essential in reducing iron ore into pig iron, a shortage of coke will reduce supplies of pig iron and necessitate larger supplies of scrap to maintain the level of production.

Import requirements for finished steel are estimated at 1,272 thousand metric tons for 1948. For 1949 the figure is about half this amount; estimates have not yet been completed for the last two years.

Timber

Timber ranks with coal and steel as one of the basic raw materials for European reconstruction, both because of its central position in economic life and because of the devastation wrought in the recent war. Housing is recognised as an essential priority in any economy and the softwood requirements of participating countries for housing reconstruction are major items for the next four years. Of equal importance is the demand for timber in the recovery of industry, transport, and even agriculture. Factory reconstruction needs timber; ties and wagon timber are a bottleneck in railway maintenance and repair, and shipbuilding makes large demands, particularly on hardwood supplies.[39]

Direct war damage, over cutting during the war years and the disappearance of important Eastern European sources of timber have seriously reduced the slender available supply.

The total stated requirements for softwood of the participating countries as a whole greatly exceed the total supplies estimated to be available from domestic production and from outside. The participating countries can themselves only reduce this physical deficit by two methods:

(i) by increasing their own production even at the expense of permanent damage to their forest resources;

(ii) by reducing their requirements either by economy and substitution in the use of timber, or by postponing or eliminating some of the less urgent reconstruction measures requiring timber.[40]

The overall import requirements of all types of timber—softwood, hardwood, hardwood ties, pitprops, pulpwood and poles, plywood—amount to one billion dollars.

Inland Transport

The vast destruction of all forms of inland transport coupled with the necessity of extensive replacements of over-age equipment made this problem one of the most urgent in the immediate

[39] CEEC Report, *op. cit.*, Vol. II, p. 363.
[40] CEEC Report, *op. cit.*, Vol. II, p. 390.

post-war period. Substantial progress has already been made in re-opening lanes of transportation and in repairing or replacing equipment. The one oustanding shortage is freight cars and to a lesser extent passenger cars:

> The participating countries and Western Germany will between them have a deficit of approximately 103,000 freight cars by the end of 1951. As production in the participating countries and Western Germany is insufficient to make good this deficit within the period 1948–51 and as it would not be economical to build new factories to meet this temporary shortage resulting from the war, the only alternative is to import freight cars of European continental standard design.[41]

With regard to passenger cars the Committee considers that requirements

> do not justify the use of shipping space and the expenditure of dollars on more than 1,300 cars during this period in view of other more vital demands for shipping space and dollars.[42]

Maritime Transport

(i) The process of reconstruction of the merchant fleets of the participating countries is in progress so that by 1951 these fleets should be adequate to cover the services normally to be performed by shipping under the flags of these countries. This is on the assumption that shipbuilding materials are available in the yards as and when required to ensure prompt realisation of building programmes.

(ii) Meanwhile, until this position is obtained, the participating countries will remain dependent on a substantial but diminishing volume of dry cargo shipping services from dollar sources, estimated at 10.3 million tons in 1948, 7.2 million tons in 1949, 4.5 million tons in 1950, and 2.2 million tons in 1951.

(iii) Some part of the expanding demand for tankers must be met by tonnage other than that of the participating countries. The need of these countries for such tonnage during the period is estimated at 1.1 million tons in 1948, 1.7 million tons in 1949, 2.2 million tons in 1950, and 2.8 million tons in 1951. In each year this is less than the amount of tonnage which the United States oil industry would be expected to provide in the normal course for the transport of its trade to participating countries and Western Germany.[43]

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[41] CEEC Report, *op. cit.*, Vol. II, p. 327.
[42] CEEC Report, *op. cit.*, Vol. II, p. 328.
[43] CEEC Report, *op. cit.*, Vol. II, p. 356.

Manpower

The acute shortage of skilled workers, particularly of miners, makes it essential that the most efficient use be made of the available manpower. The combined needs of the participating countries for qualified miners is estimated at 60,000, and for all extra labor necessary for agriculture and industry at 680,000 workers.

In order to permit orderly transfers and exchanges and increase the number of skilled workers:

Formal agreements or arrangements subject to official supervision and control have been concluded by a number of the participating countries covering national workers, displaced persons, prisoners of war and Germans willing to be employed in the participating countries. Other agreements are now being negotiated or are contemplated, with a view to providing manpower needed for the production plans for the period 1948–1952, as described in the reports of the Technical Committees.[44]

A special effort has been made in the various countries to ensure an adequate supply of skilled workers for key industries. Belgium has increased the number of her training and re-training centres. France has opened a considerable number of vocational re-training centres for the building industry; their number increased from 15 in July, 1946, to 115 in July, 1947. Attention is also being paid to training skilled engineers. There are altogether 200 French vocational training centres. Great Britain has developed very large scale extension of existing training schemes for both ex-Service men and other workers, particularly for building and coal mining. Vocational training has also been highly developed in Switzerland.[45]

Monetary Stability

The success of the programme of the participating countries depends on internal economic financial and monetary stability being restored, or maintained. The production targets cannot be achieved nor can European cooperation be accomplished unless the economies of all the participating countries are sound and stable. Instability in any country affects the participating countries as a whole, for it hampers and distorts trade and prevents the affected countries from making their full contribution to the recovery programme. . . .

The countries represented on the Committee of Co-operation have

[44] CEEC Report, *op. cit.*, Vol. II, p. 445.
[45] CEEC Report, *op. cit.*, Vol. II, p. 444.

pledged themselves that, where stabilisation programmes are required, they will carry them out in a spirit of determination. In particular, the Governments of the participating countries concerned undertake to carry out, independently of any external assistance, the internal measures within their power in fiscal and currency matters, and also in the field of production, with the purpose of restricting forthwith calls on the bank of issue and other inflationary practices and of increasing the production of consumer and capital goods. . . .

It is essential to the success of the whole programme that stabilisation should be achieved as quickly as possible. In this respect the year 1948 is crucial. It will, in effect, determine the success of the efforts undertaken on the two major aspects of stabilisation. The first of these is the establishment of equilibrium between purchasing power and available commodities. The second is the prevention, in all cases where this is necessary, of the creation of new purchasing power, of which budget deficits are the main cause. If these two objectives are attained next year, the situation of Europe will be radically transformed. In all countries where there is at present a tendency to hoard and conceal resources, the country's external financial situation will be improved by putting to use all material resources which are at present concealed and by bringing back foreign exchange assets into normal circulation. In general terms, the restoration of a healthy economic and monetary situation with appropriate rates of exchange will stimulate production and exports and open new possibilities of foreign investment and commercial credits. . . .

If the gold and dollar reserves of the country concerned have been exhausted there may be real difficulty in maintaining or restoring confidence in the currency, even if the budget has been balanced and the continual increase of purchasing power stopped, and even if sufficient external aid is forthcoming to permit the purchase of imports. It would assist the difficult and painful operation of bringing inflation under control and then stopping it, if supplementary external resources specifically designed to raise the country's gold and dollar reserves to an adequate amount were made available. . . .

The amount of such resources that is required is the total of the amounts which the various countries concerned need to make up their gold and dollar reserves to a minimum level which will restore confidence. No precise calculation can be made of the amount required without examining the position of each of the countries concerned at the time when the stabilisation is undertaken. But from such estimates as can be made the amount likely to be required would be of the order of $3,000 million. . . .

The Governments represented on the Committee of Co-operation have pledged themselves after stabilisation has been fully achieved and can be successfully maintained to make their currencies convertible as defined in the Articles of Agreement of the International Monetary Fund at

appropriate rates of exchange. The Governments concerned further pledge themselves that any external assistance received for this purpose will be used for this purpose only and applied in constructive and comprehensive measures to put an end to inflation and eventually, when the necessary conditions have been fulfilled, to make their currencies convertible.[46]

Upon the recommendation of the Committee on Payments Agreements of the CEEC a meeting was held in Paris on October 15 to consider plans for "the creation of a central organization to act as a Clearing House so that surpluses and deficits may be off-set on a multilateral basis."[47] This would permit "a participating country which has a surplus in its relations with another participating country to use that surplus to settle a deficit resulting from current payments to a third participating country."[48]

It is also planned, in accordance with recommendations of the Financial Committee of the CEEC, to hold a meeting of experts in London next September to work out the technical details of the Proposal made by the Delegations of Belgium, the Netherlands, and Luxemburg. This Proposal concerns "a system of automatic transferability of European currencies in order to promote the development of inter-European trade"[49] and has been adopted in principle by the CEEC. It invokes an undertaking by each member of the group to:

(a) allow the transfer of its currency to each of the other members of the group up to the amounts of the balance shown by the periodical set-off calculations;

(b) accept the currency of each of its partners in accordance with the result of this set-off;

(c) settle in gold or convertible currency the balance in excess of the credit margins laid down in the payment agreements to the extent that the surplus countries are entitled to ask for such settlement.[50]

Inter-European Trade

The CEEC Report lays major stress upon the development of inter-European Trade and "an early relaxation of restrictions."[51]

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[46] CEEC Report, *op. cit.*, Vol. I, pp. 26–29.
[47] CEEC Report, *op. cit.*, Vol. II, p. 526.
[48] CEEC Report, *op. cit.*, Vol. II, p. 526.
[49] CEEC Report, *op. cit.*, Vol. II, p. 532.
[50] CEEC Report, *op. cit.*, Vol. II, p. 534.
[51] CEEC Report, *op. cit.*, Vol. I, p. 32.

The expansion of production will involve continuously increasing measures of mutual help between the participating countries, which will increase their ability to cover their own requirements. . . . This process will be stimulated by the measures which will be taken to secure progressive relaxation of import restrictions and to improve the payments arrangements between the participating countries.[52]

Specific measures are also envisaged such as "open quotas or open general licences for certain goods, aimed at giving importers greater freedom of choice of source of supply according to commercial considerations of relative price and technical suitability."[53]

While tariff barriers are not of primary importance at the moment, they will become increasingly so as quantitative restrictions are gradually eliminated:

The extent to which the interchange of goods is likely to be impeded by tariffs is, therefore, of fundamental importance for the future development of the European economy on sound lines. The Draft Charter for an International Trade Organization offers two lines of attack on the problem of tariffs. It is the basic aim of the Draft Charter to secure the progressive world-wide reduction of tariffs on a multilateral basis, but it also provides for the possibility that groups of countries may wish to form Customs Unions.[54]

The world-wide reduction of tariffs on a multilateral basis is both necessary and beneficial for the European economy. This reduction is necessary in order to provide increased overseas outlets for the indispensable exports from the participating countries; at the same time, it is beneficial in its influence on the pattern of economic activity within the participating countries as a group. A start has been made in the negociations at Geneva with a multilateral reduction of tariffs. It is essential that efforts should be made to secure further progressive reductions in tariffs on this multilateral basis, and in these efforts the participating countries are prepared to play their full part.

The Committee has considered the question of Customs Unions as a means of achieving the speedier reduction and eventual elimination of tariffs between a group of countries. The advantages which the United States has enjoyed through the existence of a large domestic market with no internal trade barriers are manifest. Under different circumstances and on a smaller scale the decision of Belgium, Luxemburg and the Netherlands to form a Customs Union is an instructive example of mutual cooperation in this field. . . .

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[52] CEEC Report, *op. cit.*, Vol. I, p. 58.
[53] CEEC Report, *op. cit.*, Vol. I, p. 32.
[54] CEEC Report, *op. cit.*, Vol. I, p. 33.

. . . the idea of a Customs Union including as many European countries as possible is one which contains important possibilities for the economic future of Europe and it is in the general interest that the problems involved should receive careful and detailed study by Governments. Several steps have already been taken in this connexion. . . .

The four Scandinavian countries, namely Denmark, Iceland, Norway and Sweden, have announced, after a meeting of the Foreign Ministers which took place in Copenhagen on the 27th and 28th of August that they were taking steps to examine immediately the possibility of an extension of the economic cooperation between their countries, including the question of the elimination, wholly or partly, of the customs frontiers between the four countries. . . .

The Governments of Austria, Belgium, Denmark, France, Greece, Ireland, Iceland, Italy, Luxemburg, the Netherlands, Portugal, the United Kingdom and Turkey have accordingly decided to create a Study Group for the purpose of examining the problems involved and the steps to be taken, in the formation of a Customs Union or Customs Unions. . . .[55]

The Study Group will seek to establish appropriate relationships with the Interim Tariff Committee to be set up under the General Agreement on Tariffs and Trade, and with the International Trade Organisation as soon as it is established.[56]

Continuing Inter-European Organization

The four-year program envisaged by the sixteen participating countries depends upon the closest possible collaboration, complete and free exchange of information, agreements regarding distribution of production, and a selection of priority imports and production targets by common consent. Although the CEEC was set up as a temporary organization the participating nations fully intend to continue in the remarkable spirit of cooperation which was evidenced in the preparation of their report:

The Committee believes that if means for carrying out the programme are made available, a joint organisation to review progress achieved in the execution of the programme will be necessary. The participating Governments declare themselves ready in this event to set up such an organisation by mutual agreement. This organisation will ensure, to the full extent possible by joint action, the realisation of the economic conditions necessary to enable the general objectives to which each country has pledged itself to be effectively achieved. The organisation will make periodical reports to the various European Governments on the extent

[55] CEEC Report, *op. cit.*, Vol. I, pp. 33–35.
[56] CEEC Report, *op. cit.*, Vol. I, pp. 33–35.

to which the programme is being realised. The Governments will supply the organisation with all information required for this purpose. The organisation will be of a temporary character and will cease to exist when the special aid necessary for the recovery of Europe comes to an end.[57]

Role of the United Nations and the Specialized Agencies

Wherever suitable international machinery exists, it is the desire of the participating countries that these tasks should be effectively followed up within the framework of the United Nations. Many of the reports of the Technical Committees accordingly state that suggestions for continued study of some of the production problems will be made by interested governments at the forthcoming meetings of the Committees and Sub-Committees of the Economic Commission for Europe. In this way problems which are also of concern to countries not represented on the Committee of Co-operation could usefully be examined on a wider basis and for the benefit of Europe as a whole. It should be noted that five out of the sixteen participating countries, not as yet being members of the United Nations, are not members of the Economic Commission for Europe. They are, however, being invited to attend the forthcoming meetings of those Committees of the Commission in whose subjects they are interested. It is hoped that the work for which this report indicates the need may be carried out effectively in the same spirit of co-operation and in a wider forum.[58]

For the solution of its food problems the CEEC emphasizes the essential services of the Food and Agriculture Organization and expresses the view:

. . . that there is need for continued interchange of information regarding agricultural production programmes and mutual consultation on common problems in this field. The Committee is of opinion that the participating countries will need to cooperate to remove the many difficulties which will inevitably arise from unforeseen changes in production and supply conditions. The Committee considers therefore that there should be continued consultation, in association with the work of the Food and Agriculture Organisation of the United Nations, on all possible measures designed to solve these problems.[59]

The role of the Economic Commission for Europe and of its subsidiary bodies will be of increasing importance in the development of the plans of the participating countries.

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[57] CEEC Report, *op. cit.*, Vol. I, pp. 39–40.
[58] CEEC Report, *op. cit.*, Vol. I, pp. 38–39.
[59] CEEC Report, *op. cit.*, Vol. II, p. 56.

A proposal for an international freight car pool is being submitted for discussion by the Economic Commission for Europe.[60]

The European Coal Organization is making a special examination of the best means of securing the most efficient use of such surplus capacity as may exist for manufacturing mining supplies.[61]

A second measure which will be more difficult and will take longer to carry out, is the standardization of certain equipment. . . . Here again, the countries represented at the present Conference have agreed to make a special joint study, within the framework of E.C.O., as soon as possible.[62]

The following questions concerning the most economic development and utilisation of European power resources, having regard to the general interests of the nations concerned, appear to fall within the scope of the Power Committee of E.C.E. and interested Governments have therefore decided to raise them at the first meeting of that Committee on 9th October, 1947, with a view to furthering any action which may be deemed necessary at the earliest possible date:—

(i) The preparation and periodic revision of a survey of European large-scale power resources suitable for development for providing power for other countries as well as for national supply.

The nations concerned would then be informed regarding projects of mutual interest and would themselves, by bilateral discussions, investigate such projects and reach a solution as to their development;

(ii) The undertaking of an immediate study of the desirability of establishing an international high-tension network in order to determine whether a better and more economic use can be made of Europe's power resources;

(iii) The undertaking of an immediate study of the desirability of further standardising the design of electric equipment in order to expedite its manufacture.[63]

In order to ensure a satisfactory distribution of manpower between the countries concerned and to review measures, particularly for recruiting and training, it is planned to solicit the assistance both of the International Refugee Organization and of the International Labour Organisation.

Two of the key international organizations are, obviously, the International Bank for Reconstruction and Development and the International Monetary Fund. Considerable reliance is being placed upon the assistance of the Bank in financing the contemplated program:

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60 CEEC Report, *op. cit.*, Vol. I, pp. 23–24.
61 CEEC Report, *op. cit.*, Vol. I, p. 19.
62 CEEC Report, *op. cit.*, Vol. II, p. 162.
63 CEEC Report, *op. cit.*, Vol. II, p. 178.

It is clearly desirable that the largest possible contribution for covering the deficit should be made by means of loans by the International Bank, and the Bank's recent Report shows the important part which it should be able to play.[64]

Role of Germany

For the purpose of drawing up a European balance sheet of resources and requirements, it is indispensable to take account of Germany, since that economy has been, in the past, and by the nature of things will remain, closely tied up with the economic system of other European countries. . . . Considerations of security demand also that both the rate and the nature of her economic recovery should be carefully controlled.

The German economy must not be allowed to develop to the detriment of other European countries, as it has done in the past. But, if European co-operation is to be effective, the German economy must be fitted into the European economy so that it may contribute to a general improvement in the standard of living. In particular, the output of the Ruhr coalfield, which is essential to the European economy as a whole, must not again be used by Germany in such a way as to constitute a threat to European security, but must contribute to the rehabilitation and economic stability of the whole of Europe, including Germany herself. An increased production and export of Ruhr coal is in fact essential for European recovery, and both coal and coke should be fairly distributed between those countries, including Germany, which depend on the Ruhr for their supplies. The machinery, raw materials, food and other supplies which are required to increase Ruhr coal production deserve high priority in any programme of imports either into Germany, or into Europe as a whole.

Other Western European countries cannot be prosperous as long as the economy of the Western Zone is paralysed, and a substantial increase of output there will be required if Europe is to become independent of outside support.[65]

Requisites for Achievement of Program

The cost and feasibility of the program contemplated by the participating countries depend upon a number of unpredictable factors. One of the basic and questionable assumptions is that mid-1947 prices will continue. The tentativeness of any price estimates is clearly recognized: "The figures submitted by the countries estimating for years ahead are necessarily subject to error, for it is impossible to predict the course of development of every industry. But is is believed that the statements show accurately the order of magnitude."[66]

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[64] CEEC Report, *op. cit.*, Vol. I, p. 54.
[65] CEEC Report, *op. cit.*, Vol. I, pp. 69–70.
[66] CEEC Report, *op. cit.*, Vol. I, pp. 46–47.

Perhaps the most difficult factor to assess is agriculture:

> Agricultural production is subject to many fluctuations which cannot be foreseen. It is also extremely difficult to assess the many factors which will determine the requirements of non-participating countries (including the supplying countries) out of available world supplies and therefore the balance which will be available for the participating countries.[67]

The fulfillment of the objectives of the participating countries depends also to a large extent upon two other factors. The interrelationship of the whole program makes it essential that the development of each of the parts be smooth and even and that such assistance as is given be accurately timed. Delays and bad timing can be as disastrous as the withholding of aid. Every element of the program depends upon the others:

> . . . mining machinery upon steel, steel upon coal, coal upon food—and in turn depends upon the availability of supplies from overseas in the right quantities and at the right times, upon the maintenance of internal financial stability and upon continuing and effective mutual help between the participating countries.[68]

Thus

> . . . more food for miners means more coal; more coal means more steel; this in turn makes it possible to produce more mining machinery and more agricultural machinery to produce more coal and more food, and more transport equipment to enable the increased supplies of coal to flow smoothly from the pits. If timber is lacking, coal production is hampered and movements by rail are slowed down if there are not enough timber ties to maintain the track. Europe's experience shows how these shortages interact upon one another and ultimately lead to industrial stagnation. An expansion of each can likewise have a cumulative stimulating effect upon the whole structure.[69]

Just as the segments of the recovery program are interdependent so is the economy of Western Europe and the rest of the world. The success of the program presupposes that

> . . . a state of full employment and full use of productive resources will be continuously maintained, that an increasing part of the needs of the

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67 CEEC Report, *op. cit.*, Vol. II, p. 48.
68 CEEC Report, *op. cit.*, Vol. I, p. 25.
69 CEEC Report, *op. cit.*, Vol. I, p. 14.

participating countries and Western Germany can be obtained from Eastern Europe and from South-East Asia, that the goods which the participating countries can produce for export can be sold to the American continent and to the rest of the world, that there will be a progressive reduction in the price of imports in relation to the price of exports, and that non-participating countries will so far as necessary be able to pay for such goods in dollars.[70]

From Eastern Europe it is assumed that it will be possible to obtain by 1951 substantial quantities of coal, cereals in amounts equal to pre-war and supplies of timber equal to 75 per cent of pre-war, and from South-East Asia a steady recovery in supplies, particularly sugar, oilseeds, and rice.

Finally, it is recognized that

> . . . the action which the participating countries can take is limited. The power to correct the maladjustment is not theirs alone. The maladjustment can never be corrected on a basis of expanding trade unless market conditions in the American continent permit Europe to sell goods there in steadily increasing quantities and permit other countries to earn dollars there and use them to purchase from Europe.[71]

In the last analysis the external means of recovery can in largest measure only come from the United States, which has by its assistance in the last two years already rescued Europe from collapse and chaos. Unfortunately the size of the problem has proved greater than was expected; the disruption caused by the war was more far-reaching and the obstacles to recovery more formidable than was realised even six months ago. This report contains, it is believed, a realistic appreciation of the situation. In it the participating countries have set out the facts as they see them and on the basis of those facts have formulated a recovery programme. Their programme is based upon the fullest use of their existing productive capacity. In drawing it up they have sought to reduce their needs from the American continent to the minimum consistent with its achievement. The American people, through their Government and their Congress, will consider this programme to determine whether the means can be found of supplying those needs. On their decision will depend whether Europe can achieve economic stability and thereby be enabled to make her full contribution to the welfare of the world.[72]

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[70] CEEC Report, *op. cit.*, Vol. I, p. 112.
[71] CEEC Report, *op. cit.*, Vol. I, p. 57.
[72] CEEC Report, *op. cit.*, Vol. I, pp. 60–61.

Chapter III

IMPACT OF THE EUROPEAN RECOVERY PROGRAM ON THE ECONOMY OF THE UNITED STATES

It is doubtful if ever, in peacetime, countries have been subjected to as searching an economic analysis as the sixteen nations and the United States have undergone since the summer of this year. Our economy, particularly, has been x-rayed from every possible position. Its structure and intricate inter-relationships, its incomparable strength and vitality, and its weaknesses have been laid bare for the world to see. One cannot

> confront the massive report of the . . . Harriman Committee on Foreign Aid without a feeling akin to awe. This is a blue-print for the most ambitious undertaking in matching the needs and resources of two continents which the world has ever seen in peacetime; for the most extensive mobilization of a whole economic system. . . . ever projected.[1]

Besides the nineteen-member Harriman Committee which was requested to summarize all other information and advise the President "on the limits within which the United States may *safely and wisely* extend such assistance,"[2] the Nourse Committee (Council of Economic Advisers) which considered "the impact on our national economy of aid to other countries," and the committee under Secretary of the Interior Krug, which examined the effect of an aid program on our national resources, almost

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1 Editorial, New York *Herald-Tribune*, November 9, 1947.

2 Membership of the committee: The Hon. W. Averell Harriman, Chairman; Hiland Batcheller, Pres., Allegheny-Ludlum Steel Corp.; Robert Earle Buchanan, Dean, Graduate College, Iowa State College; W. Randolph Burgess, Vice-Chairman, National City Bank of N. Y.; James B. Carey, Sec'y-Treas., CIO; John L. Collyer, Pres., B. F. Goodrich Company; Granville Conway, Pres., Cosmopolitan Shipping Co., Inc.; Melville F. Coolbaugh, Colorado School of Mines; Chester C. Davis, Pres., Federal Reserve Bank of St. Louis; R. R. Deupree, Pres., Proctor and Gamble Co.; Paul G. Hoffman, Pres., The Studebaker Corp.; Calvin B. Hoover, Dean, Graduate School, Duke University; Robert Koenig, Pres., Ayrshire Collieries Co.; Robert M. LaFollette, Jr.; Edward S. Mason, Dean, School of Public Admin., Harvard University; George Meany, Sec'y-Treas., AF of L; Harold G. Moulton, Pres., The Brookings Institution; William I. Myers, Dean, College of Agriculture, Cornell Univ.; Robert G. Sproul, Pres., University of Calif.; Owen D. Young, Hon. Chairman of Board of Directors, General Electric Company.

every branch and department of our Government has been studying some aspect of the huge problem. In the introduction to his report Secretary Krug states:

> Experts, technicians and clerical workers were made available from the following Departments and agencies: Departments of Agriculture, Commerce, Interior, Labor, State, and War; Boards of Governors of the Federal Reserve System, Export-Import Bank, Federal Trade Commission, Federal Power Commission, Office of Defense Transportation, Tennessee Valley Authority, U.S. Tariff Commission, War Assets Administration, and the Executive Offices of the President. A Liaison Committee to guide the preparation of the basic studies by groups of commodity and other specialists was set up from representatives of a number of the above agencies. The Commodity Committees included such experts as were available in the various establishments.[3]

An overall interdepartmental Advisory Steering Committee on the European Recovery Program was set up under the direction of the State Department to coordinate and synthesize our government explorations and to bring the CEEC estimates into harmony with the estimates of our experts of what was economically realistic and politically feasible. In addition the Budget Bureau which must review all requests for appropriations before submission to Congress has had to make an exhaustive study not only of the scope of the proposed aid but also of suggested procedures.

Besides this thorough examination by the Executive Branch of our Government, Congress has conducted independent surveys and during the summer made extensive field investigations in Europe. Though several Congressional Committees, and almost two hundred Congressmen toured various parts of the world, the principal responsibility for determining the extent of European Aid to be provided by the United States was placed in the hands of a special House Select Committee on Foreign Aid composed of nineteen members of various House Committees (from sixteen States) under the chairmanship of the Honorable Charles A. Eaton, Chairman of the House Foreign Affairs Committee and the Vice-Chairmanship of Representative Christian A. Herter of

[3] Since early October representatives of the CEEC have been meeting in this country with this Committee giving technical assistance in clarifying and revising certain estimates.

Massachusetts,[4] who headed its group inquiry in Europe, and its first-hand report will have considerable influence on the final decisions Congress will make on a foreign recovery program.[5]

Estimated Cost to the United States

Estimates of the cost to the Treasury of the United States of a four-year aid program range from $12 to $17.2 billion (Harriman Committee[6]) and from $16 to $20 billion (Secretary Marshall[7]). These figures do not include possible loans for capital equipment that might be obtained either from private sources or from the International Bank for Reconstruction and Development. The variations in the estimates are due to a number of uncertain factors which include: the amount of reliance to be placed upon financing from the International Bank and private sources; availability of commodities in short supply; the rapidity with which European production recovers; and fluctuations in United States and European price levels. The Harriman Committee used July 1, 1947, prices for United States goods while Secretary Marshall allowed for a 10 per cent increase.

Revisions of CEEC estimates by the Harriman Committee are based primarily on unavailability of hard grains (which could be compensated for, in part, by other food stuffs), shortages in the

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4 Membership of the Committee: Thomas A. Jenkins (Ohio); Charles A. Wolverton (N. J.); August H. Andresen (Minn.); Francis Case (S. D.); John C. Kunkel (Pa.); John M. Vorys (Ohio); Charles W. Vursell (Ill.); W. Kingsland Macy (N. Y.); Richard M. Nixon (Cal.); E. E. Cox (Ga.); James P. Richards (S. C.); Francis E. Walter (Pa.); Harold D. Cooley (N. C.); George H. Mahon (Texas); Overton Brooks (La.); Eugene J. Keogh (N. Y.); A. S. Mike Monroney (Okla.).

5 Preliminary Reports (one through eleven) approved by House Select Committee on Foreign Aid pursuant to H. Res. 296, U. S. Government Printing Office, November 12, 1947. (Hereafter referred to as House Select Committee Reports.)

6 Harriman Report, *op. cit.*, Part Two, p. L 3 and Table II, p. L 3b.

7 Statement of Secretary Marshall to Joint Meeting of Senate Foreign Relations Affairs Committee and House Foreign Affairs Committee, *New York Times*, November 11, 1947.

supply of steel, petroleum, certain types of machinery (especially agricultural equipment and freight cars), a reduction of $700 million in the cost of shipping goods in foreign bottoms, and estimated large loans from the International Bank and private sources. The possible availability of commodities at any particular time will depend upon the many factors bearing on supply at that given moment. For the sake of bench marks, however, the Committee has set down the probable range for each commodity, assuming favorable and unfavorable conditions. The following table, therefore, is in no way an actual estimate:

POSSIBLE IMPORTS OF 16 PARTICIPATING COUNTRIES FROM THE U.S., 1948

(MILLIONS OF DOLLARS)

	CEEC Estimate	*Harriman Estimate*[8] *Low availability*	*High availability*
Food, Feed, fertilizer	1452	1150	1270
Coal and other solid fuels	342	370	370
Petroleum products	512(a)	250	250
Iron and steel products	370	175	300
Timber	96	95	95
Agricultural machinery	370	75	125
Mining machinery	80	80	105
Electrical equipment	150	100	125
Petroleum equipment	168	75	130
Steel plants	100	50	100
Inland transport equipment	203	60	60
Timber equipment	10	15	15
Machinery, n.e.s.	287	400	500
Unspecified	1787	1450	1600
Total	5927	4345	5045

(a) Estimate of dollar costs for petroleum imports from all sources.

The divergences between the Harriman Committee and Marshall estimates may be due not only to different assumptions regarding

[8] Some of these decreases are compensated for, in part, by estimated increases from other countries in the Western Hemisphere. Source: Report of the President's Committee on Foreign Aid, Tables iiA, B, and C, pp. L 6a, b and c.

price levels and availability of supplies but also to variations in the amount of reliance to be placed upon loans for capital equipment from private sources and from the International Bank. The Harriman Committee not only expects the Bank to be able to provide approximately $3 billion in loans over the four-year period, but anticipates considerable private lending:

> . . . there will almost certainly be some private capital funds available to finance European governments and enterprises, especially in the latter part of the period. The American corporations that have branch plants, for instance, will probably have to provide some such funds. Effective monetary and exchange stabilization would make some European private dollar balances available. A successful recovery program will certainly place a number of European governments in a position to go to the private capital market before the four years have elapsed. These deductions should total between $1 and $1.25 billions in 1948 and from $4 to $5 billions over the four-year period.[9]

The Harriman Committee has taken an unduly pessimistic view of the availability of certain supplies and an unduly optimistic view of the loan funds that may be made available by the Bank and private sources. If one takes the Committee's lower four year figure—$12.5 billion—and adds to it the possible loans from the Bank—$7.1 billion—and the maximum estimated private dollar investment in European industry—$5 billion—one finds that the Harriman estimate is apparently not substantially different either from that of Marshall or the CEEC. Their assumptions, however, are apparently quite different.

As the countries most needing assistance cannot absorb large loans without jeopardizing their future ability to pay, it is generally agreed that part of the aid—for food, fuel, fertilizer, replacement parts and equipment, certain raw materials—should be in the form of grants. The loans would be handled for the most part by the Export-Import Bank and the International Bank for Reconstruction and Development.

Approximately 70 per cent of the total import requirements listed by the CEEC is for food, fuel, fertilizer and industrial raw materials. The thirty per cent or so of equipment and capital

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9 Harriman Report, *op. cit.*, Part Two, pp. L4-5.

goods, however, is the base-rock of the program. Without it, the sixteen participating countries will not be able to meet any of their production targets. The first year is obviously the critical period. If aid is adequate in 1948–49, a foundation will be built that may call forth untapped European reserves and resources and create the momentum necessary for the success of the program.

The Harriman Committee has suggested that the cost to our Treasury (not including loans from private sources or the International Bank) during the first full year will range from approximately $5.5 billion to just over $6 billion.[10] Secretary Marshall estimated that the cost to the Treasury for the first full year will be "somewhat less than $6 billion."[11] As this estimate was for the fiscal year, Secretary Marshall also recommended $1.5 billion for the second quarter of 1947.

Final determination of the extent of our support will rest with Congress. Although there seems to be agreement in the Executive Branch that the program should be formulated on a yearly basis, there is general reluctance to attempt detailed estimates. Translation of a broad complex program for recovery into detailed patterns of specific dollar and commodity aid properly distributed among different countries which will have varying rates of recovery and different fiscal and productive problems is not practicable. There is a great danger, furthermore, in fixing a figure which would be inadequate for the job:

> It would be most unwise to attempt to determine in advance either the magnitude of the whole program or the exact amount of every commodity or product which Europe may need or the United States may be able to send. If a program of European economic aid running through 1951 is in fact approved by the Congress and undertaken by the United States, countless circumstances will arise during the life of the program which will and should affect its size, nature and direction.[12]

While total magnitudes have to be expressed in dollars, the basic

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10 This figure includes an estimated $1 billion for occupation costs in Germany and Austria, less direct cost of army troops and personnel. See Harriman Report, *op. cit.*, Part Two, p. L10.

11 See Statement of Secretary Marshall, *op. cit.*, *New York Times*, November 11, 1947.

12 Harriman Report, *op. cit.*, Part Two, p. A3.

decisions should be made not in terms of amounts of money but of quantities of goods. This has nothing to do with administration. It does not mean that any part of a program of American aid should necessarily take the form of the supply of commodities rather than the transfer of funds. It is rather a way of emphasizng the fact that the real cost to the people of the United States depends upon the amounts of goods and services supplied; that is, the real wealth transferred to the governments and peoples of other countries. It does not depend upon the size of entries in books of account.

. . . the amount of American aid required can be estimated only by calculating the foreign exchange deficit of the participating countries. To make such a calculation even for a limited period it is necessary to engage in a kind of economic forecasting which is subject to a wide range of error, no matter how honestly and carefully done. Europe's import needs are affected by the amount of coal that is mined in the Ruhr, the severity of the winter, the size of European crops, and rates of production in many European industries beside mining and agriculture. An estimate of what Europe will actually import must take account of the availabilities of supplies elsewhere in the world. European exports depend directly upon production and that, in turn, upon imports. Unpredictable though they are, Europe's imports, exports, and production can be more reliably forecast than can the prices at which European exports can be sold and the prices that will have to be paid for imports of food and raw materials. Yet a change in the forecasting of any one of these alters the estimate of the foreign exchange deficit.

Because of the inherent impossibility of narrowing the margin of error to a tolerable size, no honest man will try to decide at this time how much aid Europe will need and how much it would be wise for the United States to give for a period as long as four years. Moreover, grave consequences would follow from any ill-advised attempt to achieve a finality for which there is no basis. A rigid ceiling set too low would provoke another crisis; one set too high would encourage waste.[13]

United States Ability to Support Program

The Krug and Harriman Committees and the Council of Economic Advisers[14] all emphatically affirm that our resources, productive facilities, and the economy as a whole can support sufficient aid to Europe to assure economic recovery. They considered the

[13] Harriman Report, *op. cit.*, Part Two, pp. L1 and 2.

[14] Supplemented by studies in Europe and subsequent review by the House Select Committee on Foreign Aid. See House Select Committee Reports, *op. cit.*

impact of such a program from three points of view: resources, productive capacities, and price structure. It was generally agreed that at present there is a severe strain on all three, due, however, not so much to an enormous export surplus but primarily to our unprecedentedly high national and per capita income, and consumer demand.

The Harriman Committee undertook to answer the following questions:[15]

Why should the United States furnish aid?

Why do the European nations need help?

How much money and what kind of goods can we safely and wisely furnish?

How can such a program best be financed and administered?

What will be the impact of such a program on our economy?

After exploring "the limits within which the United States may safely and wisely plan to extend economic aid to Europe," the Harriman Committee actually revised certain CEEC estimates; they concluded, however, that we could, with administrative controls and safeguards, maintain a program of aid to Europe adequate to meet essential needs.

Both the Krug Committee and the Council of Economic Advisers based their calculations upon CEEC requirements amounting to approximately $22 billion and both concluded that the resources and economy of the United States will not be adversely affected:

> . . . from the standpoint of preserving both the national security and our standard of living, our economy in general is physically capable of providing the resource requirements of a considerable program of foreign aid.[16]

> . . . these facts lead to the conclusion that the general impact of a new foreign aid program of the assumed size upon the American Economy could be sustained.[17]

The proportion of the gross national product going into civilian

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15 Harriman Report, *op. cit.*, Part Two, p. A1.

16 Krug Report, *op. cit.*, p. vi.

17 *The Impact of Foreign Aid upon the Domestic Economy*. A Report to the President by the Council of Economic Advisers, October, 1947, p. 75. (Hereafter referred to as the CEA Report.)

channels in 1947 is higher than any year since 1939 (and 25 per cent higher than 1945). Per capita income (based on 1944 price levels) is 30 per cent higher than 1939 (and 28 per cent above 1929). Profits, after taxes, are the highest in history. The government's budgetary surplus vastly exceeds original estimates. Though there are shortages both in consumer and producer goods, per capita consumption of major food commodities is the highest in history—about 26 per cent above pre-war—as can be seen by the following table:[18]

	1935–39 Average	*1947*
	(In Pounds)	
Meats	125.6	155.0
Chicken	17.9	23.7
Eggs	37.3	47.2
Milk and Cream	340.0	403.0
Flour	153.1	150.0
Fresh Fruits	138.5	148.0
Fresh Vegetables	235.0	260.0

The high level of exports thus far undertaken has not interfered with the maintenance of full employment in this country, accompanied by a level of real consumer income, capital accumulation, business investment, and general economic activity, higher than in any previous peacetime year.[19]

Prices have been increasing steadily, but the Council of Economic Advisers states that "it is clear that . . . export factors exerted a minor and secondary influence upon the upward surge of prices."[20] ". . . Looking at the economy *generally*, price inflation has been caused mainly by domestic factors."[21]

If prices were only moderately affected by exports during 1947—when exports reached the highest point in history—it is held unlikely that they will have a more harmful impact in 1948 and thereafter, when they will be declining. It is interesting to note that despite the unprecedented level of exports, the percentage going to the countries of Europe during the first half of 1947 (37 per

18 CEA Report, *op. cit.*, Table 6, pp. 20–21.
19 CEA Report, *op. cit.*, p. 3.
20 CEA Report, *op. cit.*, p. 22.
21 CEA Report, *op. cit.*, p. 73.

cent) was—except for 1941—the lowest in recent history.[22] The total volume of our export trade is expected to decrease during the next four years, although there may be a slight increase to Europe in 1948. It seems clear that the anticipated exports under an aid program will not be greater than we have provided, with only moderate strain on our economy, during the past two years:

> The amount of efforts financed with government aid has ranged between 2 and 3 per cent of our gross national product, and will be less in the future and our general financial ability to support such a program cannot be questioned.[23]

All the Committees agree that maximum industry-government cooperation will be needed, as well as extreme care in administration of the complex program. All strongly recommend adoption of control measures over those materials in short supply which are of critical importance for European recovery in order to assure the most efficient flow and utilization of products with a minimum disruptive effect upon economic life in the United States. President Truman in his message to Congress on November 17 asserted that a comprehensive program against inflation must also include selective control of prices of basic consumer and producer goods.[24]

All other studies made by Congress[25] and government departments (and almost every agency has been exploring this problem) support this conclusion. Independent surveys made even before the Marshall Plan was conceived, indicate that our economy can sustain a foreign aid program of considerable magnitude:

> The United States has reached such a high stage of industrial development that great quantities of facilities can be added in a short time—if there is demand for their products. . . . We have reached a stage of economic development and technical competence where inadequate industrial and commercial capacity can be quickly overcome through the construction of new facilities. We have more than enough manpower and resources and potential productive facilities to fulfill our requirements under every conceivable circumstance.[26]

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22 The average for the years 1936–40 was 41.4 per cent. See Table, Krug Report, *op. cit.*, Part I, p. 52.

23 CEA Report, *op. cit.*, p. 78.

24 *New York Times*, November 18, p. 3; See Chapter IV, pp. 877–878.

25 See Reports 3–11, House Select Committee, *op. cit.*

26 *America's Needs and Resources*, Frederick Dewhurst and Associates, Twentieth Century Fund, 1947, pp. 646–647.

Critical Aspects of Recovery Program

It is thus clear that the economy of the United States has the capacity and potential flexibility to sustain a program of aid of the general magnitude contemplated. However, the United States studies emphasize the existence of several critical supply problems due especially to the continued pressure of our own unprecedented demand for certain key products which the participating European countries require in quantity.

The materials listed by the CEEC as most urgently required—cereals, nitrogen, coke, scrap, steel and various types of equipment—include the very commodities for which our own demand is strongest—". . . the demand in both cases takes place at the same strategic spot in the American market."[27] Europe's need for food to sustain the bare necessities of life is evident. Despite the increased United States post-war consumption of cereals, "it would be desirable for the United States to export much more wheat than the 1946–47 total of, roughly, 400 million bushels."[28] If our objective of restoring Europe's economic well-being is to be achieved its needs not only for food but also for steel, for steel-making materials and for equipment must be largely if not entirely met:

> An 'injection' of immediately required necessities . . . is not enough. The objective of the European nations, an objective backed by the United States, is to become self-sustaining. If this is to be the case not only must working capital be replenished, but there must be an effort to expand and renovate the European industrial and agricultural plant. This calls for capital equipment. Part of it is needed to make good arrears of depreciation and obsolescence. The war was a period of rapid capital consumption; plant and equipment were worked hard without adequate maintenance or replacement. Another part of it is needed to replace German facilities. Still another part of it is to permit an expansion of output above the highest levels achieved before the war. It seems likely that the European nations may have over-emphasized their needs in this direction, as well as their ability to absorb capital goods. But the problem is nevertheless there, especially if we consider the longer-term future.[29]

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27 *The European Recovery Program*, Printed for the use of the Committee on Foreign Relations, U.S. government Printing Office, Nov. 10, 1947, p. 101. [Hereafter referred to as ERP Report.]

28 ERP Report, *op. cit.*, p. 91.

29 Harriman Report, *op. cit.*, Part Two, p. C4.

Success of the program may require expansion of some facilities and will most certainly depend upon the extent we are able to control inflation and channel the flow of materials in short supply into the uses that will contribute most directly to the rehabilitation, renovation, and reconstruction of the industrial and agricultural plant of Europe. The achievement of this objective will require the kind of imagination, ingenuity and government-industry-consumer cooperation for which the people of this country have demonstrated their ability in the past.

Steel represents the weakest link in the program. "The relative steel shortage is of serious proportions."[30] Without "the use of vigorous affirmative measures to assure distribution to the most urgent uses and prevent a spiraling of prices" competing demands for steel might undermine the whole recovery program.[31] With the exception of December, 1946, our scrap supply is lower than at any time in recent years. Pig iron production is 6.2 million tons less than capacity. "A number of furnaces built by the Government are not being used at all, because of such problems as local shortages of coke, lack of blowers and poor furnace condition."[32] Coking coal, essential in the manufacture of pig iron, is in tight supply. Our present steel ingot output of 85 million tons is 6 million tons under rated capacity.[33] But at the same time, we have a critical shortage of facilities for certain semi-finished steel products, such as sheet.

To increase the current level of exports of iron and steel mill products without reducing domestic consumption will necessitate the breaking of certain domestic bottlenecks, particularly the shortage of steel sheet. Additional sheet and strip capacity is being installed by the steel industry and is becoming available in increasing quantities. Programs already planned extend to the end of 1948.

A considerable portion of the most urgent foreign demand, however, is for various kinds of ingots and rough shapes for which adequate finishing capacity is available in the United States. The basic limiting factor

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30 CEA Report, *op. cit.*, p. 76.

31 CEA Report, *op. cit.*, p. 77.

32 Krug Report, *op. cit.*, Part I, p. 24.

33 It has been estimated that present and projected demand might warrant an expansion four times larger than that now planned by the steel industry.

to exports, therefore, is not finishing capacity but ingot production, which in 1947 will total some six million tons less than rated capacity. Everything possible should be done to bring this unused capacity into production promptly.[34]

Price increases, if continued, would mean that we would have to make available an ever larger amount of dollars to command the estimated volume of goods. The CEEC estimates, based on July 1, 1947, prices,[35] are already considerably out of line with United States market conditions. Prices, therefore, are at present the most important element of cost of this aid program to the United States taxpayer.

The CEEC net deficit, i.e., the amount of dollars required from outside sources to balance their payments to the world, assumes a steady decline in prices of European imports—by 7½ per cent (over July 1, 1947) in 1949, 10 per cent in 1950, 12½ per cent in 1951—while the prices of European exports are expected to remain at present levels. Both assumptions are questionable, particularly as European exports will face far greater competition in world markets than the CEEC seems to anticipate. The net dollar deficit also assumes that the equivalent of 2.8 billion of estimated net exports of the sixteen nations during the four-year period to non-participating countries will be readily convertible into dollars. This is open to some doubt.

The International Bank for Reconstruction and Development has been relied upon to a considerable extent by the CEEC, the Harriman Committee, and the government agencies studying this question, for loans for capital equipment. This assumption is questionable, particularly in the early stages of the recovery program when capital equipment will be most needed to establish a firm foundation. Under the Bank's Articles of Agreements, three factors severely limit the extent and type of capital loans which may be made:

(a) the Bank does not have adequate dollar resources immediately available.

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34 Krug Report, *op. cit.*, Part I, pp. 23–24.

35 The Harriman Committee estimates are also based on July 1 prices.

(b) there are definite limits to the absorptive capacity of the investment market in the United States—the principal source upon which the Bank must depend for additional dollar funds—for debentures of the Bank.

(c) The Bank is required by its charter to make only loans as to which there are reasonable prospects of repayment and it must use its limited potential dollar resources not only for European, but for world, reconstruction.

The total United States subscription to the Bank is $3,175,000,000 but only 20 per cent or $635,000,000 of this is required to be paid in. The United States paid-in subscription and other dollar or gold payments made in accordance with the Bank's charter bring its paid-in dollar assets to $727,075,000. This sum has been increased by the recent issue of $250,000,000 of the Bank's debentures in the American market.

Loans totalling $497,000,000 have been approved, leaving approximately $480,000,000 available as of June 30, 1947, for new loans. Additional debentures can be issued only at times and to the extent that they can be absorbed by the American market on terms favorable to the Bank. It is generally considered that under the most favorable circumstances and even over an extended period of time American investors would not absorb debentures exceeding in capital amount plus interest the total United States subscription.

Furthermore, the total dollars available to the Bank for lending purposes cannot be made available exclusively to Europe. Other areas also face severe dollar shortages and have pressing reconstruction needs.

The urgency of the recovery of Europe does not detract from the importance of the prompt reconstruction and development of the other areas of the world needing assistance, Latin America, Asia, Africa and the Middle East. Indeed, it should not be very long before the financing of development projects in those areas will tend to become the primary concern of the Bank.[36]

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[36] Second Annual Report of International Bank for Reconstruction and Development, 1946–47, September, 1947, p. 12.

Expansion of capital goods in Europe equivalent to ours during the war years is assumed for the achievement of the program of the sixteen nations:

> Related to the desired and expected expansion of production is a heavy program of capital development. During the period of four years the plan proposes that $4 to $5 billions be spent on new steel mills; $3.5 billions for mining machinery and equipment; well over $1 billion for petroleum refinery equipment and electric plant expansion, totalling at least $5 billions. Apparently $3 to $4 billions of agricultural machinery are estimated to be required for domestic use, as well as a large quantity of rolling stock of all types. Finally, a heavy shipbuilding program is now in progress which will involve capital expenditures of some $3 billions, during the period of the program. These figures make no reference, of course, to projected expenditures on housing and most other types of construction of industrial plant and equipment for such consumer-goods industries as textiles and the leather industries. A very large proportion of the capital equipment is expected to be produced in Europe and, presumably, financed by the participating countries and their nationals without any need for dollar exchange.[37]

This program will require rapid development of recovery momentum, fullest realization of all planned targets and rigid controls of their prices, production, consumption. Their savings will have to be directed into investment channels. As the sixteen nations plan to supply a considerable portion of their requirements of heavy equipment and machinery, the success of the total program will depend upon their own capacity to carry through this capital expansion. The magnitude of the task confronting them and of the cooperation by the United States, will be evident as we examine some of the outstanding problems in detail.

Food and Agriculture

Food and the facilities needed to increase the production of food (primarily steel and fertilizer) are the heart of the recovery program. Without substantial improvement in European output of food, the increased production of coal, steel, machinery, distribution equipment and the other interrelated essentials for recovery cannot be achieved.

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[37] Harriman Report, *op. cit.*, Part Two, p. C6.

The prime requisite for the European recovery program is food. The urgency of increased food imports for several of the CEEC countries cannot be overemphasized. . . . Unless food flows to Europe from all sources throughout the world during the next few months in quantities higher than last year, the result in some countries may be not merely cessation of economic recovery, but serious malnutrition and economic and political chaos.[38]

. . . . Of almost 19 million long tons of food exported by the United States in the 12 months ended June 30, 1947, cereals made up 80 per cent by weight and exports of wheat alone (including flour) amounted to 10¾ million long tons, or nearly 400 million bushels. These exports did not significantly reduce domestic use of grain products for human food, although additional grain could have been converted into meat and milk.

For 1948 and the following years the problem is to assure maximum wheat production for as long as it is needed to meet world shortages. . . . Our large wheat crops during the past six years have been due in part to unusually favorable weather. Weather has also been partly responsible for the current high level of wheat acreage, since favorable moisture conditions have permitted plantings on land normally submarginal for wheat. With average weather, yields certainly and acreage probably would decline from present levels. With dry weather in the Great Plains, material reductions in wheat acreage would be expected.[39]

Evidence is increasing that our yield in 1948 may drop. "A very serious shortage of wheat in 1948 is no longer a mere possibility—it has now become a probability. . . . If we should be confronted with a winter wheat crop of not more than 500,000,000 or 600,000,000 (half that of 1947), as seems at least within the realm of possibility, the entire foreign aid program would be jeopardized more than by any other single factor. . . ."[40]

The uncertainties of our crop yield make all the more important the 5 million yearly tons of grain from Eastern Europe as anticipated by CEEC. The Harriman Committee emphasizes this point:

The Committee is impressed with the importance of reestablishing extensive trade between Eastern and Western Europe. . . . Economic recovery in Western Europe will increase the bargaining power of the participating countries by reestablishing a basis for trade. A sharp division between the economies of Eastern and Western Europe would certainly

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[38] Harriman Report, *op. cit.*, Part Three, p. A5. See also Secretary Harriman's statement on interim aid at the end of this chapter.

[39] Krug Report, *op. cit.*, Part I, pp. 12–13.

[40] House Select Committee Report 3, p. 9.

increase the difficulty of restoring adequate levels of food consumption in the CEEC countries.[41]

Because of the great uncertainties of weather and of resumption of "normal" imports from the countries in Eastern Europe, food will be a problem throughout the aid-period.

Prospects for rapid recovery of food production are not promising. Shortages and maldistribution of requisites for agricultural production make difficult an immediate expansion in food production in countries whose agricultural output has been reduced by war. Fertilizers, pesticides, and in some cases seed, remain in short supply. Draft power, farm machinery, and equipment are still far from adequate in many countries. Consequently, the recovery of the basic food crops is expected to take some time. The output of the nutritionally desirable foods, such as milk, meat, and eggs, will increase at a still slower pace owing to the time required to rebuild livestock enterprises. Added to these purely agricultural obstacles is the lack, in many countries, of foreign exchange needed for the purchase of food and of agricultural and rehabilitation materials. Until production is restored, food supplies must continue to be precarious and highly dependent on annual weather conditions. It should not be forgotten that the recent succession of favorable seasons in some major exporting countries, which has enabled them to provide large exports, may be followed by adverse years and reduced crops.[42]

The original CEEC estimate of cereal import requirements for 1947–48 of 30 million tons was finally reduced to 20 million tons on the basis of probable availability as reported by the Special Cereals Conference of FAO and the International Emergency Food Council. The reduction brings the diets of the Western European nations close to the danger line and even the estimates for the succeeding years, 25 million tons annually, are exceedingly modest.

As to the standard of living set at Paris there is also no evidence that it is excessive either in terms of humanitarian interest or political stability. If the Paris program should go through exactly as written, Europeans would eat less well in terms of calories and far less well in terms of variety in 1951 than they did in the prewar years. In almost all countries

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41 Harriman Report, *op. cit.*, Part Three, p. A21.

42 Food and Agriculture Organization of the United Nations, *Measures to Alleviate the World Shortage of Cereals and Other Foodstuffs: A Review of National and International Efforts and Their Results*, pp. 2–3.

the per capita real incomes of the employed population would be lower. Comparison of planned European consumption with that of the United States, which is perhaps the best basis for humanitarian judgment, would show so great a differential that we can ill afford to make the accusation of over-comfortable living. All Europe hopes, however vainly, for an improvement in living standards after the war. In many cases its standards are already cut far too finely for political tranquillity.[43]

In order to meet even these minimum requirements a maximum effort will be required from the United States to "conserve grain by all practical means in order to make increased quantities available for export"[44] and to take "firm measures" to control the "serious inflation of grain and food prices."[45]

Possible types of action to assure maximum supplies of wheat for export would include food conservation programs, measures designed to reduce consumption (and hence prices) of other grains and livestock products, efforts among farmers, feed dealers and feeders to limit the use of wheat for feed, programs to limit the use of wheat and coarse grains by industrial users, such as the brewers and distillers, and measures to encourage freer movement of wheat from farms.

Consideration should be given to supplementing wheat exports by exporting other foods, particularly those in long supply to make up any discrepancy in wheat exports.[46]

Fertilizer

The current low level of food production in many countries is due in part to inadequacy of current fertilizer supplies and to accumulated deficiencies of fertilizer applications during the war. Of the three essential plant nutrients, nitrogen, phosphorus and potassium—the first is used to obtain immediate increases in food production.[47]

Nitrogen is the only fertilizer in critically short supply. Europe and North Africa possess ample reserves of the other two. Between the writing of the Krug report and publication of the Harriman report, all unused nitrogen capacity in Europe apparently was

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[43] Harriman Report, *op. cit.*, Part Two, p. C8.

[44] Harriman Report, *op. cit.*, Part Three, p. A3. See also his statement on Interim Aid at end of this chapter.

[45] CEA Report, *op. cit.*, pp. 41 ff.

[46] ERP Report, *op. cit.*, p. 91.

[47] ERP Report, *op. cit.*, p. 91.

brought into production, so export of coal,[48] as recommended by the Krug Committee,[49] will not suffice to increase European output. Substantial imports of nitrogen are essential if the sixteen participating nations are to expand agricultural output enough to reduce to manageable proportions their dependence upon external sources.[50]

The CEEC countries estimate that they will have a net deficit in 1947–48 of 270,000 tons of nitrogenous fertilizer,[51] a large part of which would have to come from the United States.[52] As each ton of fertilizer enormously increases grain output, thereby greatly decreasing expenditure of dollars for imported grain, all studies recommend an all-out effort to meet their needs.

In view of the dependence upon United States resources and the need to meet European nitrogen deficits as speedily as possible, the Harriman Committee recommended:

1. Establishment of full production from the presently unused synthetic capacity owned by the Government.

2. Construction of facilities required at these plants to permit the production of finished fertilizer-grade nitrogenous materials in integrated operations. . . .

3. Sale or lease to private interests of the Government-owned facilities with provisions to assure continued production and availability of fertilizer materials for such times as the need continues. If this cannot be

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48 Nitrogen is produced in Europe primarily by the use of coal: seven or eight tons of coal produce one ton of nitrogen. See Foreign Affairs Background Survey, *The Coal Situation in Europe*, Office of Public Affairs, Department of State, October, 1947, p. 1.

49 This recommendation was based on earlier estimates:

"While United States production of nitrogen (including the output of ordnance plants) has increased threefold since before the war, domestic consumption of nitrogen fertilizers has more than doubled. . . . Although European production of nitrogen is almost back at prewar levels, total production abroad is still considerably below capacity, owing chiefly to an insufficiency of coal and electric power and world needs for nitrogen are greater than before the war." Krug Report, *op. cit.*, Part I, p. 17.

50 See statement by Secretary Harriman on Interim Aid at end of this chapter.

51 Corrected as of October 31, 1947; House Select Committee, *op. cit.*, Report 4, p. 2.

52 Harriman Report, *op. cit.*, Part Three, p. A18.

effected, then continued Government operation as an emergency measure.[53]

Agricultural Machinery

Our domestic output of farm machinery is far above pre-war and is expected to increase. Approximately one sixth of domestic production is being exported and export orders are double export allotments. Twenty per cent of our exports in the first half of 1947 went to the sixteen Paris conference countries plus Western Germany.

The present level of exports of farm machinery, though about 50 percent higher than last year, has not deprived American farmers of needed equipment to the extent that any substantial reduction in food production has resulted. Even if present exports, estimated at 12 percent of production were further increased to 50 percent by 1948 it is doubtful whether the amount of new machinery available for domestic use would be reduced since total production in 1948 is likely to increase at least by an equivalent amount. Exports of farm equipment will not create any substantial drain on United States raw material resources.[54]

The Harriman Committee, however, questions the ability of the sixteen nations to carry through the ambitious farm mechanization suggested in their report, a program that would necessitate almost complete reorganization of European agriculture in four years:

The reported tractor requirement, including only those for farm use, is over 200 thousand in each of the next four years. Allowing for needed replacements, it would still mean rapid further mechanization. It would mean increasing tractors from about 5 per cent of the total power on farms in pre-war years, and roughly 10 per cent at the present time, to well over one-third of the total by the end of the 4-year period.[55]

. . . , the amount of American produced equipment which these countries could use to full advantage over the next four years appears to be substantially less than their stated requirements but more than they are now receiving from us. The problem is to balance this need against the demands of the United States farmers which are also well in excess of the productive capacity of the industry.

Twice the recent annual rate of our exports to these countries of all farm equipment and parts would still be only about 6 per cent of our total production. Given the probable increase in production and the

[53] Harriman Report, *op. cit.*, Part Three, pp. A18–19.
[54] ERP Report, *op. cit.*, p. 95.
[55] Harriman Report, *op. cit.*, Part Three, p. B2.

possible decline in exports to other areas, it would not prevent a small increase in the quantities available to domestic farmers. It would, however, give the European farmer a preferred position. This is the most that could be furnished without serious doubts as to their ability to use increased quantities effectively in furthering their food production program.[56]

Coal

Fuel and power rank high among the inter-dependent key commodities and services upon which the European recovery program is based. Europe's essential need to recover its prewar supplies of energy and to increase them progressively in order to raise the level of productivity of European workers is clearly defined by comparing the present consumption of fuel and power with United States use. At the present time in the United States the per capita consumption of fuel and power is four times as great as the combined consumption in the countries participating in the recovery program; the prewar ratio was 2½ to 1. Before the war four-fifths of the power consumed in the participating countries and Western Germany was derived directly or indirectly from coal. Although these countries anticipate over the next four years a substantial increase in the use of petroleum products and the development of new hydro-electric capacity, the basic source of power will continue to be coal.[57]

Without adequate supplies of coal, it is impossible for European industry to produce enough electric power, steel, machinery, freight cars, locomotives, agricultural tractors, and other equipment for meeting its own essential needs."[58]

The CEEC estimated that the United States will have to make up yearly coal deficits in the amounts of:

41	million	metric	tons	in	1948
25	"	"	"	"	1949
14	"	"	"	"	1950
6	"	"	"	"	1951
86					for four year period.

The announced reduction in imports from the United States is predicated upon the following anticipated increases in European production:

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[56] Harriman Report, *op. cit.*, Part Two, B5.
[57] Harriman Report, *op. cit.*, Part Two, p. G1.
[58] House Select Committee Report 7, p. 1.

In Millions of Metric Tons[59]

	1938	1947	1948	1951
United Kingdom	231	199	214	249
Western Germany	206	133	149	193
France	48	50	51	63
Poland	65	56	68	83

It is obvious from the above table that realization of CEEC coal targets depends upon close intra-European cooperation.

. . . . There is no area of the economy where the need for developing sound and durable relationships between European regions is greater than the case of coal. Eastern European coal, particularly Polish coal, is essential to the integrated development of a reasonably balanced European economy.[60]

The Harriman Committee considers these increases over-optimistic and estimates that we will have to export 125 million metric tons in the four year period.[61]

Our coal resources are ample to meet this deficit until European facilities are restored to full operation. Mine facilities and land and water loading capacity are more than adequate (U.S. port loading capacity for overseas shipment approximates 68 million tons a year). The only bottleneck in supplying coal is an acute shortage of coal cars.

Unless action is taken by the railroad management and/or Government to (1) repair some of the worn equipment being retired; (2) restrict less essential uses of open-top cars, and (3) establish a revised system of car allocation on the basis of sustained productive ability of each individual mine; the tonnages of coal available for export will be restricted, shipments will be erratic, and the European schedule of requirements for United States coal will not be met.[62]

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[59] Harriman Report, *op. cit.*, Part Three, p. D8.

[60] Krug Report, *op. cit.*, Part I, p. 19.

[61] Harriman Report, *op. cit.*, Part Three, pp. D9–10. British coal production, however, has been running during the month of November at 97 per cent of the 1938 rate and despite the serious setback of last winter appears likely to achieve its goal of 199 million tons in 1947.

[62] Harriman Report, Part Two, p. G2. See also House Select Committee Report 7, p. 5.

. . . to a certain extent the coal car shortage is artificial. Needs of coal cars are estimated to be an additional 50,000 new cars, roughly a little more than a one day supply to the mines. Should it be possible to reduce average turnaround time, which on one road for example was 11.5 days during wartime, and is over 14 days now, by just one day, the car shortage will to a great extent disappear, and new cars could make up the balance needed. Whether turnaround can be reduced is a problem for railroad management, shippers, and consignees. . . .

If no action is taken, the availability of coal cars will not be sufficient to permit the United States to export large tonnages of coal.[63]

Although *coke* is one of the critical shortages in Western Europe, insufficient consideration has been given to coking coal in the United States reports.

Reserves of high volatile coking coal are adequate but there is question whether they are of the quality necessary to sustain blast furnace operation at full capacity without washing and similar treatment.[64]

Nothing is said regarding possible United States exports. The need in Europe, however, and the uncertainty of United States supplies, is a problem of first importance if the sixteen nations are to meet their production targets.

Although Western Europe is short of coal, the shortage is most acute in the higher grades of coal, especially coking coal which is vitally needed in the metallurgical industries. It was only at the beginning of this year that the United States was able to ship small amounts of coking coal to Europe, and even these have been of inferior grades. If the demand for coking coal in the United States grows any greater than at present, or if transportation difficulties persist, it is possible that the United States may have to stop shipments of the so-called metallurgical grades to Europe.[65]

The CEEC report estimated that the sixteen participating countries would produce 94 per cent of their four year requirement ($3.6 billion) of coal mining machinery and equipment and would require from the United States only $220 million of special types of mining machinery not produced in Europe. A later more detailed report received from the European Coal Organization indicated that the participating countries anticipated producing 97 per cent of their requirements and would have a net deficit of only $118.5

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[63] Harriman Report, *op. cit.*, Part Three, p. D4.
[64] Harriman Report, *op. cit.*, Part Three, p. C10.
[65] House Select Committee Report 7, p. 7.

million. Adding to this the CEEC estimate for Western Germany ($20 million), the Harriman Committee suggested a revised four-year total of $140 million.

Petroleum and Petroleum Equipment

Because of the increased consumption of fuel oil anticipated by the sixteen nations (owing to substitution for coal, mechanization of agriculture, increased food transport, and general industrial expansion) petroleum is second only to coal as a source of energy for the European recovery program.

Total petroleum requirements of all CEEC countries in 1948 are estimated at 59,542,000 tons as compared with 36,224,000 tons in 1938. By 1951 requirements are expected to rise to nearly 77,000,000 tons. . . . the bulk of requirements must be imported from non-participating countries. Approximately 45 percent of the total requirements must be secured from dollar sources, [American companies]. Based on July 1, 1947 f.o.b. prices the total value of oil from dollar sources is $2,460,838,000 over the 4 year period.[66]

As present world demand exceeds available petroleum supplies, it is considered unlikely that the substantial needs of the sixteen nations can be fully met.

World production of crude oil in 1946 was approximately 392 million tons. Over 63 percent of the total was produced in the U.S., 19 percent in other Western Hemisphere countries, 9 percent in the Middle East, 6 percent in the USSR and 3 percent in all other areas, including Europe.

From this supply total requirements of all European countries except the USSR in 1946 were about 44 million tons. Of these requirements about 60 percent were supplied from the Caribbean and Middle East, 20 percent from the U.S. and 20 percent from European production.

. . . . It is extremely unlikely . . . that the European petroleum requirements as indicated in the CEEC report can be met in full within the period 1948–51. During the next few years it is expected that there will be a large expansion in the availability of crude oil from Middle East fields. At the same time, a corresponding expansion of refining capacity and transportation facilities must be made. The expectation is that these developments will ultimately make possible the fulfillment of European petroleum requirements but with a lag of at least one or two years behind the rate projected by the CEEC.[67]

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[66] Harriman Report, *op. cit.*, Part Two, p. G6.
[67] Harriman Report, *op. cit.*, Part Two, pp. G5–G7.

The sixteen participating countries expect to produce 68 per cent of their requirements of petroleum machinery and equipment. Whether they succeed will depend on the adequacy of their steel supply and ability to maintain a high level of capital expansion.

The total volume of petroleum equipment required from 1948 to 1951 by oil companies owned by CEEC nationals and operating within CEEC countries and elsewhere is $1.9 billions. This estimate does not include the requirements of U.S. owned companies even within the CEEC countries themselves. It is expected that the CEEC countries will produce $1.3 billions of this total. This leaves a balance of almost $600 millions of petroleum equipment to be supplied by the U. S.

It is probable that the total equipment requirement stated by the CEEC report, plus projected expansion of petroleum capacity by other countries, including the U.S., exceed the world capacity to produce petroleum equipment. Thus it is extremely unlikely that the U.S. can export as much equipment as is requested. Furthermore, CEEC expectations concerning European equipment production seem unrealistically high. However, in the light of the importance of petroleum equipment to the European Recovery Program, every effort should be made to extend a maximum amount of aid as long as the requirements of the American petroleum industry are not seriously prejudiced thereby.[68]

Electric-Generating Equipment

The CEEC anticipates that almost all of the electric generating, transmission and distribution equipment needed for the planned 21 million Kw "national" expansion programs will be produced by the participating countries. Only $300 million of special equipment will have to be obtained in the United States. All of the equipment for the 2.3 million Kw "international" expansion, however, will be sought in the United States.

This demand can be met on the basis of the time schedule recommended by the CEEC:

. . . the reported European requirements of electrical generating, transmission and distribution equipment from the United States in 1948 and 1949 are so small that they will not create any major difficulty. Generating and distribution equipment required in the last two years of the program—or possibly not until later—bulk somewhat larger relative

[68] Harriman Report, *op. cit.*, Part Two, pp. G8–G9.

to the capacity of United States equipment producers. The total stated requirements are roughly one-fifth of the current annual rate of outlays for equipment by United States utilities. It should be possible, however, to meet these requirements without serious inconvenience to electric power consumers in this country if domestic equipment manufacturers will make allowances for such requirements in the formulation of production programs for 1950 and 1951.[69]

Steel

Steel could be decisive in determining either the success or failure of the recovery program. The CEEC program provides for meeting the bulk of machinery and equipment requirements from the production facilities of the participating countries. This entails not only substantial imports of steel but also of heavy equipment to increase output of semi-finished and finished steel. Steel is required to expand food production (tractors and agricultural equipment), coal output (mining machinery and coal cars) and all forms of transport both inland and maritime (freight cars and shipbuilding).

It is clear . . . that, at present, there is a crippling shortage of steel in all foreign countries striving to recover from the effects of war. This shortage is the result primarily of the removal, destruction or incapacitation of foreign iron and steelmaking plants, and of the exceptionally high level of requirements to replace losses or to meet backlogs accumulated during the war. Existing iron and steelmaking plants in foreign countries are incapacitated chiefly because of shortages of raw materials, especially coking coal.[70]

Unlike other commodities, steel, in any great quantity, for export, is produced only in the United States and in Europe. Therefore world availability of steel to meet European deficits really means steel from the United States. . . .

Steel as a whole will remain scarce throughout 1948, even if total exports are held to the annual rate of 6.6 million net tons of rolled and drawn steel products reached in the first half of 1947. Conservative estimates place domestic demand for the year at 59.4 million net tons. This figure from the Krug report seems already to reflect some tailoring to permit the assurance of exports at the rate of the first half of 1947. It

[69] Harriman Report, *op. cit.*, Part Two, p. G11.
[70] Krug Report, *op. cit.*, Part I, p. 21–22.

is thought that even in very favorable circumstances total supply [of finished steel mill products] will not exceed 64.4 million net tons.[71]

TOTAL PRODUCTION AND EXPORTS OF ROLLED STEEL PRODUCTS, 1929–47[72]
(1,000 short tons)

	Production			
Period	*Total*	*for domestic use*	*For export*	*Percent exported*
1929	45,998	43,790	2,208	4.8
1939	34,955	32,427	2,528	7.2
1946	53,073	48,273	4,800	9.0
1947, 1st half annual rate	62,344	55,786	6,558	10.5

Source, Department of Commerce

The accumulation of backlogs for both producers' and consumers' goods and the effects of population growth have raised domestic steel consumption to the highest peacetime levels.[73] Public and private building projects are being shelved because it is known that steel is not available and these requirements do not even appear on the order books. The makers of essential railroad and industrial equipment as well as automobiles, are operating below their capacity because they cannot get steel. While there are some offsetting influences, such as the declining rate of inventory accumulation, domestic demand is expected to continue strong *if the general economy remains at high levels of operation*.[74]

In most of the studies of specific commodities . . . the shortage of steel or steel products is indicated to be one of the bottlenecks to maintaining or increasing production. Not only is this the case with such heavy users as the industrial and farm machinery and vehicle industries, where sheet metal, transmission chains and castings are steel components in short supply, but also in petroleum, where steel tubing, casing and pipe lines are needed; in fertilizers and other chemicals, where pressure tank cars and containers are problems; in coal, where production levels are dependent upon the availability of open-top cars now in short supply; in

71 House Select Committee, *op. cit.*, Report 6, p. 1. Whereas exports of finished steel were 17 per cent of production in 1940 they will be only 10.5 this year. It is important to note that exports of sheet and strip, the items in most critical demand for European recovery, have not increased, relative to output, above the 1937 rate.

72 CEA Report, *op. cit.*, p. 44.

73 Krug Report, *op. cit.*, Part I, p. 22.

74 CEA Report, *op. cit.*, pp. 45–46.

transportation where facilities for shipping wheat and other commodities are similarly below current requirements.[75]

Though the Harriman Committee has made a most detailed analysis of the United States steel picture,[76] it has failed to examine as "beyond the scope" of the Committee whether United States blast furnace capacity in 1947 of 65.7 million tons, ingot capacity of 91 million tons (of which 6 million was idle) and current steel finishing facilities capable of handling 65 million tons, are sufficient to accommodate United States demand irrespective of European needs. The steel industry is at present increasing its ingot capacity by approximately 2.5 million tons;[77] this seems inadequate for present domestic and foreign needs.

The presently idle six million tons of ingot capacity are due to shortages of scrap and pig iron and to a number of other factors:

> For the most part, this gap between output and capacity reflects the shortage of raw materials, namely, steel scrap and pig iron. While a continued high rate of industrial production should provide sufficient industrial scrap to produce 85 million tons of ingots, the additional quantities of scrap required for increased output will be difficult to obtain. Pig iron productive capacity of 64.7 million tons is being used at only about 90 per cent of capacity, leaving 6.2 million tons of unused capacity. A number of furnaces built by the Government are not being used at all, because of such problems as local shortages of coke, lack of blowers and poor furnace condition. Certain privately owned furnaces are likewise hampered by local coke shortages, while others are operating below capacity because of the poor quality of coke available and similar factors, including high costs of production in some cases.
>
> Energetic efforts by industry with appropriate Government encouragement and assistance will ease these raw material shortages. The most promising possibilities, in addition to prompt return of industrial scrap, exist in the accelerated scrapping of remaining war surplus materials and the organization of systematic collection of obsolescent scrap. Another possibility is in the extension of the high pressure and oxygen techniques to increase output of pig iron from existing capacity. Solution of the scrap and pig iron problems would permit an increase in our ingot output to a level closer to rated capacity than at present.[78]

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75 Krug Report, *op. cit.*, Part I, p. 22.

76 Harriman Report, *op. cit.*, Part Three, pp. C1–32.

77 This is a gross expansion and may be partially offset by decreases due to dismantling obsolete facilities.

78 Krug Report, *op. cit.*, Part I, pp. 24–25.

A thorough study of our steel capacity in relation to Europe's requirements apparently is needed:

. . . . Both the Krug and Nourse reports emphasize that steel shortages are due, in part, to the failure of the steel industry to expand at an aggressive rate and indicate the belief that steel capacity is not sufficient to handle even domestic requirements of the United States economy at full employment.[79]

. . . . Careful consideration must . . . be given to every possible alternative for making maximum amounts of steel available and to assure its use for the most critical needs. The investment of steel in the increases of needed new steel capacity should be properly timed and geared to the availability of raw materials and to the supplying of other critical requirements for available steel.[80]

One of the principal limiting factors in the production of steel is scrap. We have as critical a shortage in this country as exists in Europe. The CEEC estimates that the participating countries will need to import 1.5 million tons in 1948 and a total for the four year period of 8.3 million tons.

By far, the major raw materials shortage is that of scrap. . . . Scrap drives during the war brought forth a great part of the dormant scrap in this country, and would make additional drives a less likely source of substantial quantities. The high scrap price which has been maintained for several months has not greatly improved the return of obsolescent scrap to the mills. While a continued high rate of industrial output should provide sufficient materials to produce 85 million tons of ingots, through the prompt return of industrial and obsolescent scrap, including the scrapping of ships and other surplus war materials, additional quantities of purchased scrap required for increased output might be difficult to obtain. Some relief might be provided through increased output of synthetic scrap in the unused Bessemer capacity rated at 750,000 [tons] annually, but this quantity would not go far towards solving the problem. Moreover, the use of this idle capacity would require additional molten metal and, therefore, increased output from blast furnaces.

It appears that large amounts of scrap will not be forthcoming from abroad, either because it is not there or because of prohibitive costs, collection and sorting difficulties and similar problems. The most promis-

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79 ERP Report, *op. cit.*, p. 58.

80 Krug Report, *op. cit.*, Part I, pp. 25–26.

ing source of scrap therefore remains in this country through the accelerated scrapping of remaining war surplus materials, a continuously high rate of return from manufacturing plants, and a more vigorous return of obsolescent scrap.

Sponge iron can be used in steel furnaces as substitutes for scrap. While costs of production have so far been prohibitive, a continued shortage of scrap accompanied by higher scrap prices might make the use of sponge iron economical.[81]

The other raw materials needed for steel production could be available in fairly adequate quantities if present facilities were used to capacity:

> Pig iron productive capacity of 64.7 million tons is being used at only about 90 percent of capacity, leaving 6.2 million tons of unused capacity. . . . In the open hearth furnace, where 90 per cent of the steel is made, the ratio of pig iron to scrap is approximately 50 per cent to 50 per cent. . . . Increased pig iron production from furnaces now in operation, as well as increased blast furnace capacity, can be effected through the use of high pressure operation. . . .
>
> Increased pig iron production would need to be accompanied by an increase in coke supply, especially in view of the decreasing quality of coke. Present coke capacity at furnace plants, plus beehive ovens, is sufficient for additional production above the present rate. . . .
>
> The supply of coking coal will be no problem during the 1947–52 period, although, from a long-range standpoint, our best coking coals are being depleted. . . .
>
> The supply of iron ore will not affect steel production in the period 1947–52.[82]

The CEEC has estimated steel import requirements for the sixteen participating countries and Western Germany from the United States as follows: finished steel, other than sheets and tinplate—449 thousand metric tons in 1948 and none in subsequent years; sheets—385 thousand metric tons in 1948, diminishing to none in 1951; tinplate—291 thousand metric tons in 1948, diminishing to 250 in 1951; crude and semi-finished steel—2,040 thousand metric tons in 1948, averaging approximately 2,130 annually for the remaining period.[83]

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[81] Krug Report, *op. cit.*, Part III, pp. 30–31.
[82] Krug Report, *op. cit.*, Part III, p. 31.
[83] CEEC Report, *op. cit.*, Vol. II, Table 5, p. 269.

Imports of crude and semi-finished steel requested by the sixteen participating countries are needed in part to restore the normal functions of European industrial production, but also to produce steel products for the steel consuming industries of Western Europe and for export to non-participating countries to pay for needed imports of food and other necessities. Before the war Belgium, Luxemburg, the United Kingdom, France, Sweden and Germany had substantial exports of steel.[84] Steel "is in itself an important source of foreign exchange: the value of exports from participating countries to non-participating countries might reach over $300 million in 1948, rising to $400–500 million in 1951."[85]

However, the Harriman Committee concluded that the present domestic demand for semi-finished steel precludes the possibility of substantially increasing our total exports in 1948 over those of 1947 (approximately 360,000 metric tons will be exported to the participating countries in 1947 out of total estimated exports of 520,000 metric tons).[86] The Harriman Committee further concluded that reductions below the CEEC estimates of 2,040,000 metric tons would result chiefly in the loss of the anticipated dollar revenue from exports of finished products to non-participating nations (thus increasing by that amount the total dollars needed from us), but may also in some instances reduce European steel consumption needed for economic rehabilitation:

> . . . . Analysis of the European steel program indicates that, if the requirements could be met, there would be substantial exports of finished steel from the participating countries collectively, and specifically from the United Kingdom, to non-participating countries. It appears, therefore, that if semifinished products were not supplied by the United States in the quantities needed, one effect might be, and probably would be, to reduce exports of finished steel products (especially from the United Kingdom) below the levels envisaged in the Paris Report. This would lessen the capacity of the European countries to earn dollars during the

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84 CEEC Report, *op. cit.*, Vol. II, p. 248. For example, of total output Belgium exported 50 per cent, Luxemburg, over 90 per cent, the United Kingdom, 13 per cent, France, about 19 per cent of finished steel and a substantial amount of semi-finished steel.

85 CEEC Report, *op. cit.*, Vol. II, p. 266.

86 Harriman Report, *op. cit.*, Part Three, p. C4.

period of the program but need not seriously impair the revival of production in steel consuming industries.

It must be recognized, however, that complete elimination of shipments of semi-finished products would have other more serious effects. In the first place, it is stated that the United Kingdom must maintain some exports of finished steel products to non-participating countries in order to insure the physical availability of essential imports.[87] Consequently, a part of the impact of a refusal to supply any semi-finished products from here would fall upon British domestic consumption of steel. In the second place, only a small proportion of the semi-finished products required by Italy is balanced by projected exports of finished products.[88]

The importance of carrying out the recommendations of the Krug Report for putting into production our idle steel-making facilities is evident if minimum critical needs at home and abroad are to be met. Moreover, the combination of domestic and foreign demand upon inadequate United States steel capacity, which will tend to exert severe pressure upon the price structure not only for steel but many other products, emphasizes the need for vigorous administrative controls.

With relative steel shortage confronting us for some time to come, the steel price situation assumes a critical importance second only to that of the grains. But while the foreign demand for steel has a real although secondary influence upon shortages in this country, the foreign demand cannot be held responsible for recent increases in steel prices to the same extent that the foreign demand has had a bearing upon grain prices. . . .

Whether one thinks that steel price increases have been unjustified or thinks that they have necessarily resulted from the upward spiral of living costs and wages, these steel price increases present a serious inflationary threat by increasing the costs in many other industries. This is true even though a certain amount of restraint is undoubtedly reflected in the fact that steel price advances thus far have been below the limits that the present market can stand. There is a real danger that continuing steel shortages might result in further steel price increases, further spiraling into other industrial costs and prices. This is particularly threatening because the steel industry can with relative ease yield to the pressure of wage demands caused by rising costs of living and pass the increased cost on to the industrial consumer in the form of higher steel prices.

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[87] It is estimated that 10 per cent of England's gross export earnings will come from steel products.

[88] Harriman Report, *op. cit.*, Part Two, pp. F8–9.

The inflationary threat in the steel situation is not, however, confined to the higher price of steel. The shortage of steel has the effect of creating supply shortages in the other steel-using industries. Such shortages create shortages of other products, as, for example, the shortage of freight cars and its effect on coal production. These various supply shortages, in the face of high demand, would cause upward price pressures at numerous points even if the price of steel had not increased. The foreign demand for equipment, though low in relation to total product, adds to these pressures.

Thus, the situation as to steel supply and steel prices is inseparably connected with other problems, including food prices, in the whole complex of current inflationary dangers.[89]

Timber

The world, including the United States, has an inadequate supply of softwood timber and of the better-quality hardwoods. Although the available data on European requirements do not show clearly what kinds and grades are wanted, indications are that the demand will be heaviest on the more critical items, those that are in short supply in the United States. If some flexibility as to grades and species is permitted, it would seem that the quantities of timber products needed from American sources over the four-year period, around $418 millions, is within reason. More detail is needed as to the requirements of equipment for logging, sawmills and veneer mills. It is felt that some scaling down may be necessary in this area, particularly in view of the fact that it is doubtful that the full request for $57,330,000 from the United States could be met in the four year period.[90]

Transportation

The principal burden on our railroad system, in terms of exports, is grain and coal which constituted only 15 per cent of the value of our exports in 1947, but made up 60 per cent of the total tonnage shipped out of the country. With proper controls our facilities will be adequate to handle the probable exports in the next four years. Since the total export of goods in 1948 and thereafter is likely to be considerably less than the rate during 1947—which has been adequately carried by our transportation facilities—the real problem is meeting the CEEC demand for freight cars and open-top box cars without impairing our present transportation

89 CEA Report, *op. cit.*, pp. 47–48.
90 Harriman Report, *op. cit.*, Part Two, p. J2.

capabilities. Steel is one of the keys to the solution of this problem both here and in Europe as repair of cars now idle in Europe could greatly reduce the strain.

It is reported that there are in Western Europe over 200,000 freight cars out of service awaiting repairs. Immediate assistance in supplying European shops with steel for the repair of these cars will assist freight transportation there more rapidly and effectively than any attempt to build new cars in the United States for export to Europe, and will also economize on the total amount of steel required per car put back on the rails.[91]

The principal drawback, however, is inadequate output of freight cars by our industry.

When production reaches 10,000 cars a month the size of the present backlog can be steadily diminished if new orders continue to be placed at only the present rate of 100,000 a year or less (in 1946 only 57,731 cars were ordered). This discussion concerns car building rather than transportation, so it does not examine the reasons why new freight cars are not being ordered at a higher rate. Actually, on only four occasions have new car orders exceeded 100,000 cars a year; namely 178,210 in 1922, 145,616 in 1924, 110,141 in 1929 and 106,897 in 1941 (Table II). Under pressure from the Office of Defense Transportation and after receipt of an increase in freight rates, American roads placed orders for new cars at a rate of 11,000 cars monthly for the first seven months of 1947 but this rate slumped to 2,376 cars in August.

Present backlogs amount to from 12 to 15 months production. Due to the lag in receipt of materials and components after orders are placed it is hardly probable that deliveries of any new export orders could be made in less than the normal period above stated.[92]

Our present production of freight cars cannot meet present domestic demand. Unless we can increase output as suggested above, Europe will have to rely on its own inadequate resources to achieve transportation goals essential for recovery. In order to meet this critical bottleneck, the Harriman Committee recommends that:

1. 20,000 freight cars be produced in the United States for export to the Anglo-American Zone of Germany in 1948.

2. The major European producers of freight cars stand ready to sell

[91] Krug Report, *op. cit.*, Part III, p. 71.
[92] Krug Report, *op. cit.*, Part III, p. 71.

about 10,000 cars from their 1948 production to other participating countries.

3. The United States Government should press for prompt standardization of freight car design.

4. Failure by European countries to reach their locomotive production targets should not disproportionately reduce their deliveries to Germany.

5. No railway passenger cars should be imported into Europe as part of the Marshall Plan.

6. The steel rail manufacture planned in Europe be reduced from 6.85 to 5.4 million tons for the four year period.

7. Imports of 5.12 million cubic meters of wood for ties is not unreasonable . . . substitution of wood for steel, soft for hard wood, treating in Europe where possible and import from other countries than the United States [is suggested].

8. Further consideration be given to the desirability of importing some finished trucks into Europe in 1948 and 1949 to relieve the strain on the railways.

9. In allocating steel the European countries give priority to transport uses, particularly the repair of rolling stock.

10. . . . the United States Government draw the attention of those responsible to cases of discriminatory rates which divert traffic from its normal course, and point out that such uneconomic use of means is not in accordance with the spirit of the Marshall Plan.

11. The United States should use its influence to promote an international agreement on road haulage.

12. More freight cars should be allocated to the short-haul of coal to steel mills in the Ruhr.

13. The United States Government should encourage repatriation of freight cars by bilateral agreements.[93]

Shipping

Our only problem with respect to shipping capacity is tankers.

There is no shortage of dry cargo ships to carry any world commerce that is likely to develop under an aid program for the next several years, but the tanker problem may become quite critical by 1951 if appropriate action is not taken.[94]

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[93] Harriman Report, *op. cit.*, Part Three, pp. H62–63.
[94] Harriman Report, *op. cit.*, Part Two, p. H5.

With the levels of foreign shipments at an all-time high, there is still a shipping-capacity margin of ten to fifteen percent that can be used if required for handling exports.[95]

Because of the present world surplus of dry cargo tonnage, the Harriman Committee recommends that the sales policy of the Maritime Commission be modified to allow sale of some of the hundreds of our unused ships to the participating countries, on the ground that the plans of CEEC to build 15.5 million deadweight tons of shipping in the next four years will place an undue strain on steel and other materials that are and will remain in short supply. The Committee suggests, however, that

To promote maximum flexibility in handling the Marshall Plan bulk cargoes and to avoid the cost and administrative delays involved in moving bulk carriers in and out of the laid-up fleet, a working reserve of at least 100 Liberty vessels should be maintained for ready availability.[96]

The world tanker capacity of 60 million long tons—three fifths of which are under the United States flag—is being used to the full capacity.[97]

The Committee recommends as part of the aid program the transfer to foreign governments of some special tanker types now in lay-up. These vessels, consisting principally of nearly sixty Liberty tankers, are not needed by United States interests and they could be sold by the receiving governments to private interests in foreign countries for local currency.

It is further suggested that the presently planned balance between foreign construction of dry cargo and tanker vessels be shifted to provide for more tanker construction and less dry cargo.

In order to meet any possible tanker operating contingency Congress should extend beyond March 1 the authority for operation of United States Government owned tankers under general agency agreements.[98]

As dollar shipping costs have, to date, absorbed an unreasonable percentage of our foreign loans, it seems advisable to reduce the dollar burden to the participating countries for this essential element of the transfer of goods by shipping as much as possible in foreign bottoms. The CEEC has estimated that the dollar

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[95] Krug Report, *op. cit.*, Part II, p. 25.
[96] Harriman Report, *op. cit.*, Part Two, p. H6.
[97] Krug Report, *op. cit.*, Part II, p. 25.
[98] Harriman Report, *op. cit.*, Part Two, pp. H6–7.

shipping costs of the participating countries will total $1.7 billion for the four year period, of which $1.2 billion will be for dry cargo. Somewhat over $200 million of this is for dollar payments to foreign flag vessels for carrying cargo to Europe from other areas than the United States. The Harriman Committee recommended eliminating this latter as "it does not seem appropriate to supply Paris [Conference] countries with dollars for this purpose.[99] The cargo requirements with which the Paris Conference was working will be reduced somewhat by shortages of some commodities.[100] The Committee further reduced the total CEEC estimate for shipping costs by $700 million. This cut seems excessive.

INTERIM AID

Approval of an American plan for European Economic Recovery is unlikely before the spring of 1948. Secretary Marshall has set April 1 as a target.[101] After approval by Congress, considerable time will be required to set the necessary machinery in motion, both with respect to production and to administration. At the very best, it will probably be late spring before deliveries can be effected.

However, a period of crisis is now at hand. The perils of hunger and cold in Europe make this winter a decisive time in history. All the progress of reconstruction and all the promise of future plans are endangered. If European nations are to continue their recovery, they must get through this winter without being crippled by economic paralysis and resulting chaos.

In advance of our decision on the long-range European recovery plan, we must help some nations through this immediate crisis. The most imminent danger exists in France and Italy. If the economies of these countries collapse and the people succumb to totalitarian pressures, there will be no opportunity for them or for us to look forward to their recovery so essential to world peace.[102]

The current assets of Austria are negligible and her essential imports at the present time are being supplied principally through the United States Foreign Relief Program. Funds available for Austria under this

99 Harriman Report, *op. cit.*, Part Two, p. H7.
100 *Ibid.*
101 *New York Times*, November 11, p. 14.
102 ERP Report, *op. cit.*, p. 66.

program are sufficient to last only until early in the first quarter of 1948. . . .

Indications are that before the end of December France will have no funds even to buy food and fuel. In the case of Italy funds will be needed early in December to procure food, fuel, and other essential supplies for shipment in January.[103]

This was the situation which impelled President Truman on October 23 to summon Congress to reassemble on November 17 to consider the question of interim aid.

Secretary Harriman told the Senate Foreign Relations Committee on November 12, 1947, that:

The program of interim aid . . . involves an authorization of an appropriation of $597,000,000 for interim aid to Austria, France and Italy. Of this $301,000,000 is estimated to be spent for food; $184,000,000 for coal; $35,000,000 for petroleum; $38,000,000 for cotton; $35,000,000 for fertilizer; pesticide and seed; and $4,000,000 for medical supplies.

As the above figures on the interim aid program indicate, the requests are largely confined to the food and fuel needed to carry these countries through the first quarter of 1948. Food is by all means the most important requirement in the program and makes up slightly over half of the total. . . . . The need is greater than the maximum supplies that can be made available. Rations that were already too low last year have been cut severely by unfortunate circumstances of weather beyond human control.

The critical food shortage faced by these countries this winter must be met primarily by increased supplies of grain, particularly wheat. The importance of other foods—some of which are available in limited quantities—is not to be overlooked. In fact, our agricultural experts estimate that shipments of these foods can be increased by more than half a million tons over the volume shipped last year. Yet grain is by and large the only suitable food that can be made available in large enough quantities to make a major contribution to the needs of these countries.

Conservation of Grain

. . . . It is only through the success of conservation that it will be possible to carry out the export program and also to avoid increased pressure on prices here at home.

. . . . Preliminary reports from farm and feed lots indicate that much less wheat is going into animal feed than had earlier been anticipated. Progress in procurement also seems to indicate that the supplies forthcoming will be sufficient for an export program corresponding in total amount to the shipments provided in the present request for interim aid.

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[103] ERP Report, *op. cit.*, p. 65.

Next Crop Uncertain

There is, of course, uncertainty about the total volume of grain we shall be able to make available during the current crop year. Several months must pass before data on the disappearance of grain into consuming channels and on the prospects for next year's winter wheat crop will be sufficiently accurate so that we may estimate with confidence the total supplies we can afford to export. . . .

To meet the target set for this year requires real conservation on the part of the American people. We are called upon to forego some measure of consumption of certain types of food to help relieve the hunger which will result from this year's tragic crop failures in Europe.

Fuel for Health and Industry

Imports of fuel are necessary to the maintenance of economic activity as well as minimum standards of health in the recipient nations. Nearly 37 per cent of the funds requested are earmarked for the purchase of coal from the United States at approximately the level of allocations to the three nations for the months of November and December, and represents a continuation of the existing program for facilitating the shipment and equitable distribution of coal to Europe.

The aggregate monthly requirement of the three countries from the United States of 2,065,000 tons is substantially less than our exports of coal to these destinations in past months, and equals about 3.5 per cent of our current production. Current coal exports to all overseas destinations are at the rate of 3,500,000 tons monthly, of which 3,000,000 tons are to Europe. Both of the figures reflect a reduction in our exports from those permitted in recent months. Total exports of coal during 1947 are estimated at 66,800,000 tons, including 23,700,000 to Canada.

Coal Situation Improves

Stocks of bituminous coal in the United States as of October 1 were 53,800,000 net tons, an increase of 4 per cent over the previous month. Meanwhile, coal production, which had been hampered by shortage of coal cars, has risen to a higher level than had been previously anticipated. Output of bituminous coal during the four-week period ended Nov. 1 averaged 12,700,000 tons weekly, compared with a weekly average of 11,900,000 tons during the twelve weeks preceding. There is a tight supply situation in high quality and special purpose coals, and temporary spot shortages of other coals may develop due to a shortage of coal cars. The domestic situation is being carefully watched in connection with the establishment of export quotas.

The program for interim aid includes nitrogen fertilizer in the amount of $14,000,000. Such requirements represent less than 5 per cent of the

United States supply, but coming in the months when domestic demand is at a peak, such shipments would create a special problem. However, requirements can be met in part by shipments from other producing countries. Here I would like to emphasize the desirability of obtaining the maximum flexibility in arranging for procurement outside the United States so as to lessen the strain on the United States economy in areas of short supply.

Importance of Fertilizer

The justification for prompt dispatch of these requirements lies not only in the acute need for larger food production in the recipient countries, but also in the pressure on our own food supplies. Stoppage of fertilizer supplies during the war years resulted in serious depletion of the fertility of the soils of Europe. Each ton of fertilizer available to these countries during the spring months is estimated to make a twelvefold return in farm output. To the extent that interim requirements can be met, we could expect a decreased demand for food next season.

The $38,000,000 requirement for cotton can be met. This commodity is not under export control. I am not aware that any supply problem would be created by the requirement for $4,000,000 of medical supplies.

Although, as I have indicated, there are supply problems in some of the items, based on past experience and on the analyses that have been made, I feel confident that the requirements can be substantially met. In my judgment, the alternative to meeting them are such as vastly outweigh the supply difficulties which they may present.[104]

The question, in meeting the interim as well as long-range needs, is not whether we have the resources, but whether we can effectively mobilize them. It is rather a question of *finding* the ways—as we did during the war—to *produce* enough steel, and agricultural equipment, and freight cars, and machinery to accomplish our objectives.

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[104] *New York Times*, November 13, p. 3.

Chapter IV

ADMINISTRATION

Organization

The success of the Recovery Program will depend in no small degree upon the quality and type of the organization set up for its administration. The intricate nature of the program and the paramount importance of accurate timing and smooth coordination will necessitate the ablest type of administrators. Furthermore, there is general agreement that whatever the form of the organization which is eventually approved by Congress it must be given broad powers of decision and action to meet changing circumstances.

The organization, if it is to afford successful and dynamic management to the complex recovery program, must be granted the widest practicable flexibility both in its operations and in the use of the funds placed at its disposal. The program of United States support will achieve its objective only if it is kept responsive to changing situations and varying supply conditions.[1]

The construction of a detailed program is impossible at the present time. The policies and the over-all limits can be established now. But the innumerable operating decisions which will have to be made in the course of carrying out the plan cannot be reached in advance. It would be obviously impossible to decide now, as a single example, exactly how much grain may be needed in France or in Belgium in 1950, how much will be available from the United States and how much from other sources, and how it should be shipped. Future decisions on these and a great number of similar questions will depend on a variety of interrelated factors which cannot now be accurately forecast. In order to get the maximum benefits from a plan with the minimum detriment to the United States economy, no attempt should be made, either by the Administration or the Congress, to prejudge the operating decisions which will have to be made, and probably often revised, during the life of the program. It is with this conviction that the Committee has, in numerous places throughout the preceding parts of this report, assigned to an administrator of the plan what have seemed to the Committee to be clear operating problems.

To achieve continuity and flexibility, it is imperative that the plan be plainly carried out in a non-partisan manner and in the best interests of the country as a whole. If these recommendations for a flexible framework

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[1] Statement of Secretary Marshall, *op. cit.*, *New York Times*, November 11, 1947.

and for a grant of power to make major operating decisions are adopted, the need to secure and retain the support and confidence of the country becomes especially important.[2]

A number of suggestions have been advanced regarding the composition of the organization and its relationship to the Department of State and other executive branches of the Government as well as to Congress. The Harriman Report and the Committee of Economic Advisers recommend that

> a new independent agency be set up in the Federal Government. The head of this agency should be appointed by the President and confirmed by the Senate. A board of directors should be appointed representing the departments of Government concerned with the program, including the Secretary of State and such other persons as Congress may see fit to add."[3]

Other proposals range from an agency similar to that of the War Production Board, composed of private business men, to an agency directly under the aegis of the State Department, because the "program will in many ways define and express foreign policy of the United States in the eyes of the European countries and the world."[4] However, since the major aspect of the agency's task will be its determination of the capabilities of the domestic economy, it would probably be inappropriate for the State Department to exercise more than consultative powers with regard to operations in this country. Whatever form the agency finally takes, there is general agreement that it must maintain close liaison both with the Department of State and with Congress.

All the proposals to date envisage at least a skeleton staff in Europe to supervise the operations. It has been suggested that in each country there be an American representative of perhaps ministerial rank working under the authority of an overall American director of ambassadorial rank. Since the work of these representatives will entail negotiations with governments, it is generally assumed that they will work either in close cooperation with or under the supervision of the respective ambassadors.

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[2] Harriman Report, *op. cit.*, Part Two, pp. O1–O2.

[3] ERP Report, *op. cit.*, p. 109; see also Harriman Report, *op. cit.*, Part Two, pp. O6–8.

[4] Harriman Report, *op. cit.*, Part Two, p. O12.

The scope of the new central agency according to the recommendations which have been made in the various reports would be broad and comprehensive. It would be charged with administration of both loan and grant funds provided under the program. It would be responsible for reviewing detailed import requirements and for developing a detailed program within the framework established by Congressional authorization and appropriations. Its duties would include control and management of the program within the United States. It would supervise the export of goods through the various stages of procurement, storage, delivery to seaboard, and shipping. Country and commodity accounts would need to be maintained. It should have authority to purchase in other countries as well as in the United States.

It is not anticipated that the agency set up for the administration of the program need be sizeable. Substantial reliance can be placed upon existing Government facilities.

> Full use should be made of the existing governmental agencies in carrying out those parts of the program which fall within the scope of their present activities. The Departments of Commerce, Treasury, Agriculture, Interior, the national military establishment and other agencies are well equipped to perform many of the necessary functions. The National Advisory Council and other competent interdepartmental agencies will have important parts to play.[5]

There is also full agreement with the Committee of European Economic Cooperation on the important role which can be played by existing international organizations.

It is taken for granted both in the CEEC Report and in the American studies that the American agency will be paralleled by an organization set up by the sixteen European countries. This organization would supply combined estimates of needs, offer advice regarding allocations and priorities and in general serve as a clearing house for the European nations participating in the program. It is of the utmost importance for the success of the program that there be the fullest cooperation and interchange between the American agency and the European counterpart.

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[5] Statement of Secretary Marshall, *op. cit.*, *New York Times*, November 11, 1947, p. 14.

While it is generally assumed that the United States will maintain close supervision over the assistance which it renders and will insist that certain conditions be met by the participating countries with regard to procedures which are deemed to be essential for the achievement of economic recovery, no effort will be made to dictate the execution of the program by the various countries.

> . . . aid from this country should not be conditioned on the methods used to reach these goals, so long as they are consistent with basic democratic principles. Continued adherence to such principles is an essential condition to continued aid but this condition should not require adherence to any form of economic organization or the abandonment of plans adopted in and carried out in a free and democratic way. While this Committee firmly believes that the American system of free enterprise is the best method of obtaining high productivity, it does not believe that any foreign aid program should be used as a means of requiring other countries to adopt it. The imposition of any such conditions would constitute an unwarranted interference with the internal affairs of friendly nations.[6]

Bilateral and Multilateral Agreements

The enormously complex details of the aid program will change from week to week and will differ for each country. It has been recommended, therefore, that in order to have firm agreement on general principles,

> . . . bilateral agreements . . . be negotiated between the United States and each of the countries participating in the recovery program, setting forth the reciprocal undertaking relating to American assistance. These agreements will vary in form and content as between countries, depending upon the nature of the aid to be furnished and the conditions deemed important in each case.
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> The commitments should include undertakings to adopt monetary, fiscal and other measures to maintain stability in price and cost structures; to develop production to reach targets set by the participating countries and in particular, to increase the production of coal and basic foods; and to cooperate in reducing barriers to trade and promoting increased interchange of goods and services.[7]

In addition the recipients of aid may be asked to cooperate in

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[6] Harriman Report, *op. cit.*, Part One, p.3.

[7] Statement of Secretary Marshall, *op. cit.*, *New York Times*, November 11, 1947, p. 14.

maximum use of manpower, raw materials, and resources. These agreements would be registered with the Secretariat of the United Nations as provided for in Article 102 of the United Nations Charter.

In order to emphasize the joint international character of the program it is likely that multilateral agreements also will be negotiated covering (a) the export of specified amounts of scarce commodities from one country to another, (b) establishment of a clearing house to hasten convertibility of currencies, (c) immediate effective measures to stabilize price levels, and (d) determination to continue reduction of barriers to trade through support of the International Trade Organization and enforcement of Reciprocal Trade Agreements.

Some provision will have to be made either in bilateral or multilateral agreements for the necessary powers to enforce compliance with these commitments.

Financing the Program

A substantial part of our aid will have to be given outright in the form of grants. Several of the participating countries are already carrying a considerable burden of United States loans. If repayable loans were required for the full amount of the aid program the countries most needing help could not participate without placing an uneconomic mortgage on their future:

> Repayment of foreign aid would require the European countries not only to increase their productive capacity but also to hold down their standard of living in order to develop an export potential from which to pay for essential imports and also service the debt.[8]

Approximately 42 per cent of the part of our foreign aid that was utilized up to June 30, 1947, was in the form of grants. It has been estimated that as much as 50 per cent of the aid program for the first year may have to be in grants.[9]

> . . . . To be realistic we must admit that many countries of Europe with their other burdens are unlikely to be able to repay in dollars additional

8 CEA Report, *op. cit.*, p. 61.
9 See Harriman Report, *op. cit.*, Part Two, p. M5.

loans which might be made for the purpose of providing them with food, coal and fertilizer.[10]

. . . . It should also be considered that countries assisted with respect to emergency demands for food, fuel, fertilizer and similar vital needs, without obligation of repayment, can better and more rapidly qualify for loans from the International Bank and private sources. In this respect the Government portion of the aid may be smaller if extended in the form of grants than loans.[11]

As a general principle, aid should take the form of grants or loans, depending in each case upon the capacity of the particular country to repay and the effect which accumulation of additional external debt would have upon sustained recovery. The precise determination in each case should be made by the administrative agency with the advice of the Department of State and the National Advisory Council.

In practice, it is felt that, where need is clearly demonstrated and where repayment can not reasonably be expected, imports of supplies which are quickly consumed, such as food, fertilizer, and fuel, of indispensable items of capital equipment for immediate replacement and repair, and of essential raw materials should be financed by means of grants. Loans should be made to cover imports of capital equipment and raw materials which will directly produce the means of repayment and where such repayment can reasonably be expected.[12]

The Council of Economic Advisers agrees with the recommendation of the Harriman Committee (first proposed by the CEEC) that

. . . . local currency received by any government from its nationals as the result of American assistance should be used to reduce or avoid inflationary borrowing from banks of issue, or for productive purposes . . . so that when a European government receiving aid sells the food or fuel to its nationals, the proceeds will not be used for general spending in the government budget, but shall constitute an anti-inflationary force or a direct aid to the development of the productive capacity of the country such as road building.[13]

It also has been suggested that these reserves of local currency might be used for American student scholarships, expenses of American government personnel, and procurement of the forty-

[10] See Harriman Report, *op. cit.*, Part Two, p. M5.
[11] CEA Report, *op. cit.*, p. 62.
[12] Statement of Secretary Marshall, *op. cit.*, *New York Times*, Nov. 11, 1947, p. 14.
[13] Harriman Report, *op. cit.*, Part Two, p. M5.

seven critical strategic materials required in our stockpiling program.[14] These suggestions, particularly the latter, are open to serious question. A continuing source of dollar income would thus be eliminated and the benefits of a grant would thereby be cancelled to the extent of the use for these purposes. Moreover, use of these local currency reserves to assure procurement from the sixteen participating nations and their dependencies of materials for our stockpile program could run counter to the principles of the International Trade Organization Charter. There is no question that a vigorous stockpiling program is required to balance domestic shortages in many critical materials but it should be consistent with our general commercial policy.

Determination of the criteria for and the general distribution of, loans and grants will probably rest with the new agency, within the framework of Congressional authorization. It is likely that the National Advisory Council and the Advisory Board of the Export-Import Bank will assist in formulating policy.[15] The Harriman Committee has recommended that the loan powers of the latter corporation be expanded in order that it may share with the International Bank major responsibility for the loan program:

> In between the requirement for food and fuel and the projects which could be financed by the International Bank there lies a middle area of needs which is not as closely defined or detailed in the report of the Paris Committee. In this area are raw materials, perhaps agricultural machinery, repair parts, and manufactured goods. These are the sorts of things which are necessary for an increase in production, but they are not properly regarded as equipment or suitable for financing under the World Bank. Neither are they properly matters for grants in aid, as are food and fuel.
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> The United States Export-Import Bank is now financing shipments of cotton to Italy and Germany under such plans. With any improvement in conditions in Europe a substantial amount of the movement of raw material should be financed commercially, and this should reduce the amount which has to be financed under the Marshall Plan. Gradual transfer of this financing to commercial channels should be encouraged.

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14 Harriman Report, *op. cit.*, Part Two, pp. M8–M9.

15 It has been suggested that the Administrator or Chairman of the Board of the new Agency be made a member of the National Advisory Council and of the Advisory Board of the Export-Import Bank. Harriman Report, *op. cit.*, Part Two, p. O12.

As a method of financing to accomplish those various purposes, the Committee proposes that the United States Export-Import Bank, which is already operating in this field and has the personnel and experience, should be entrusted with the administration of this part of the program, under general policies to be determined by the Congress of the United States and by and under the direction of the new organization created to administer the program. Since this business is different in its general objectives and prospects of repayment from the present business of the Export-Import Bank, that Bank should set up a special department and be furnished with special funds for this particular function. The exact amount of the funds required is difficult to determine far in advance, but the first year's needs might amount to approximately $2 billions. Funds for this purpose should not be tied, but should be available to spend anywhere and the goods moved in any ships. Purchases from other countries will at times lessen inflationary pressures in the United States.[16]

The funds made available for the aid program will not be fully effective in their purpose unless serious fiscal instability in some of the participating countries is eliminated. The nations at Paris were well aware of this and made it one of their primary joint objectives:

> The success of the programme of the participating countries depends upon internal economic, financial and monetary stability being restored, or maintained.[17]

In order to "restore" currencies that have been under extraordinary external and internal pressures, a stabilization fund—beyond the $12–20 billions required for materials and products—seems necessary. The Harriman Committee recommends that the International Monetary Fund undertake this task, even if its Charter must be amended to permit it to do so.

The United States Congress has already appropriated and paid in to the International Monetary Fund $2¾ billions, largely out of the country's gold, for the purpose of world currency stabilization. It would not appear reasonable to ask the Congress for a further appropriation for this purpose. The statutes of the International Monetary Fund appear to make its resources available in adequate amount for any country that carries through an effective stabilization program. However, if it is the opinion of the Directors of the Fund that its resources are not so available, the statutes should be revised to make them so. It is, of course, clear that the

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16 Harriman Report, *op. cit.*, Part Two, pp. M7 and M8.
17 CEEC Report, *op. cit.*, Vol. 1, p. 26.

statutes of the Fund, and in particular the interpretation placed on the Fund's operation by the American Congress, prohibit the use of the Fund by any country which has not taken adequate steps to place its internal economy in balance, and so would be using the Fund without prospect of repayment. The use must be "temporary," and that surely means that it must be in connection with sound programs which have prospect of placing a country in position to make repayment. A sound currency stabilization plan is certainly a major, if not the principal, step in this direction in the countries of Europe.[18]

Domestic Controls

The analyses of our resources, our productive facilities and pressures on the present price structure have led the three Government Committees to the conclusion that controls will be needed to prevent the continuing pressure of unprecedented demand from exerting a harmful impact on our economy. They advocate "export controls, allocations for domestic use, discouragement of misuse or excessive use, efficient transportation and distribution, and the curbing of speculation and hoarding of goods".[19]

The most direct means of controlling the physical flow of exports is by means of export licenses. Commodities subject to export licenses under a war-time act which will expire in February 1948 account for approximately 25 per cent of current export shipments. Included in these commodities are many of the materials needed under the aid program:

> Among the goods still subject to these restrictions are essential foods, including meat products, fats and oils, butter, wheat and other essential grains and preparations; fodders and feeds; seeds and fertilizers; soap; lumber and lumber products; coal; petroleum; many of the more important chemicals; steel mill products and iron and steel manufactures; copper; brass, lead, zinc, tin and tin manufactures; building materials and plumbing supplies; and certain types of machinery still in short supply.[20]

No great extension of the scope of the present legislation seems called for.

Measures to exercise control over the domestic flow of mate-

18 Harriman Report, *op. cit.*, Part Two, pp. M9–M10.
19 CEA Report, *op. cit.*, p. 79.
20 Krug Report, *op. cit.*, Part One, p. 54.

rials are infinitely more complex and will be more difficult to establish in peace-time.

A foreign aid program will require means to make available goods that are in short supply. Voluntary measures should be relied upon wherever possible. If and when they are not, the Government will probably require authority to set priorities in order to insure the availability for export of limited amounts of the items most critically needed. It might also have to issue limited orders to control consumption of critical materials such as those still in effect for tin. Especially in the field of food it might be necessary to use the device of requiring that limited quantities be set aside for export.

It must be emphasized that these suggestions apply only to the foreign aid program and not to the broad problem of inflation. The Committee is convinced that inflation is a serious deterrent to the stability of the American economy, but any consideration of a program to control inflation would have been beyond its competence and its terms of reference.[21]

Though suggesting no specific remedies the Council of Economic Advisers declared that the aid program should be paid out of current revenue which "requires the continuance of tax revenues at present levels,"[22] and underscored their previous warnings[23] that firm and aggressive measures must be taken against continued price increases:

The main problem in dealing with the relatively short supply of specific commodities is to avoid further price advances at key points which could spread to other parts of our economy and intensify general inflationary dangers. Preventive measures against this contingency lie within the area of domestic economic policy. Measures to reduce the inflationary impact of foreign demand and measures to reduce the inflationary impact of domestic demand are interrelated because both types of demand are being brought to bear at the same spots in the American market.[24]

In his message reassembling the eightieth Congress on November 17, President Truman examined the serious inflationary pressures on our economy and advocated a comprehensive program which included recommendations of all three Committees but went

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[21] Harriman Report, *op. cit.*, Part One, pp. 10–11.

[22] CEA Report, *op. cit.*, p. 79.

[23] The Midyear Economic Report of the President to the Congress, July 21, 1947, United States Government Printing Office, pp. 28–33.

[24] CEA Report, *op. cit.*, p. 67.

beyond the question of the impact of foreign aid, which is but one of the inflationary factors.

In summary, the immediate anti-inflation program that I recommend calls for the following legislative action:

1. To restore consumer credit controls and to restrain the creation of inflationary bank credit.
2. To authorize the regulation of speculative trading in the commodity exchanges.
3. To extend and strengthen export controls.
4. To extend authority to allocate transportation facilities and equipment.
5. To authorize measures which will induce the marketing of livestock and poultry at weights and grades that represent the most efficient utilization of grain.
6. To enable the Department of Agriculture to expand its program of encouraging conservation practices in this country, and to authorize measures designed to increase the production of foods in foreign countries.
7. To authorize allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production.
8. To extend and strengthen rent control.
9. To authorize consumer rationing on products in short supply which basically affect the cost of living.
10. To authorize price ceilings on products in short supply which basically affect the cost of living or industrial production, and to authorize such wage ceilings as are essential to maintain the necessary price ceilings.[25]

Conclusion

The first step toward the reconstruction of the European economy is immediate shipments of food, fuel, fertilizer, cotton, and a few basic raw materials to Western Europe. This must be followed by adequate supplies of steel and heavy equipment necessary to restore the sinews of European industry. Real momentum toward recovery will depend upon the efforts of the sixteen participating nations. However, not unless we inject a substantial volume of goods and equipment will the participating countries be able to increase production sufficiently above the large demands of their program to provide an export surplus. Not until sizeable exports are streaming out of these countries will they be able to

[25] *New York Times*, November 18, 1947, p. 3.

break through the rigid confines of the barter agreements that now inhibit the trade of Europe. Not until then will a multilateral currency Clearing House—as recommended by the CEEC—succeed in restoring the convertibility of European currencies. Not until then will a freeing of the multitude of barriers to trade—as provided for in the International Trade Organization Charter[26]—be feasible.

In the absence of further aid, the European countries will be driven to far more stringent devices of foreign trade control than would be required if additional aid is made available to them. These controls are not in harmony with the long-run policy which the United States has been sponsoring under the charter of the International Trade Organization. It may not be possible in the next few years for the Western European countries both to meet their food, fuel, and raw material needs and also achieve a stable balance of imports and exports under the sort of relatively "free" international trade which the United States Government has advocated, even if further aid is extended. If such aid succeeds in its purpose of restoring the European economy, however, it should be possible to relax such controls. Without an aid program, on the other hand, drastic controls and a basic redirection of European productive resources would be required.

On the side of commercial policy, the economic justification for an aid program is not merely that without it the whole hope for the restoration of multilateral and relatively unrestricted international trade would be dead. Beyond that danger, there would almost certainly be a most serious decline in industrial productivity. All international trade, and not merely our trade with Europe, would suffer, with consequent ill effects upon our own economy. Insulation of our economy from the ill effects of such economic disorganization abroad would be difficult if not impossible.[27]

In so far as the European Recovery Program contributes to the effective operation of the Reciprocal Trade Agreements recently negotiated at Geneva[28] and of the International Trade Organization, it is an essential part of our international trade policy. Since the European Recovery Program—as well as our efforts to expand world trade through an International Trade Organization and Reciprocal Trade Agreements—will require considerable expan-

[26] See The Restoration of International Trade, *International Conciliation*, No. 434, October, 1947.

[27] CEA Report, *op. cit.*, pp. 59–60.

[28] See *New York Times*, November 18, 1947, p. 1.

sion of United States imports, a detailed study should be made of those commodities and areas of consumer demand where increases in imports can be made with greatest benefit to the American people.

Whether the European Recovery Program is, indeed, "a world recovery program" [29] will depend in the last analysis upon the ability and willingness of the American market to receive increased imports of the world's goods.

> . . . . The maladjustment can never be corrected on a basis of expanding trade unless market conditions in the American Continent permit Europe to sell goods there in steadily increasing quantities and permit other countries to earn dollars there and use them to purchase from Europe. The participating countries will undoubtedly be able to stand on their own feet if all currencies in the rest of the world are convertible, and if the trade pattern is such that they can remain convertible. The solution of the world problem is decisive for the participating countries' future. In the initial period of the European recovery programme, the contribution to this world problem which Europe can make by its own exertions is of prime importance. But as the four-year period develops, the world considerations rather than those of European production itself will be decisive.[30]

Only in this way, by providing for continued growth of the world economy, can recovery bring lasting peace and prosperity, to all.

U. S. Government Loans, Property Credits, and Grants—Amount Available, Utilized, and Unutilized, as of June 30, 1947, by Type and Country [Millions of dollars]

29 Statement of Secretary Marshall. *op. cit.*, *New York Times* November 11, 1947, p. 14.

30 CEEC Report, *op. cit.*, Vol. I, p. 57.

U. S. GOVERNMENT LOANS, PROPERTY CREDITS, AND GRANTS—AMOUNT AVAILABLE, UTILIZED, AND UNUTILIZED, AS OF JUNE 30, 1947, BY TYPE AND COUNTRY [Millions of dollars]

Country	Amount available, July 1, 1945–June 30, 1947			Amount utilized, July 1, 1945–June 30, 1947			Unutilized balance, June 30, 1947		
	Total	Loans and property credits	Grants and other relief	Total	Loans and property credits	Grants and other relief	Total	Loans and property credits	Grants and other relief
Total	16,302	9,128	7,174	12,575	7,309	5,266	3,727	1,819	1,908
Europe	12,160	7,977	4,183	9,902	6,752	3,150	2,258	1,225	1,033
Paris Conference countries	9,331	7,388	1,943	7,828	6,414	1,414	1,503	974	529
Austria	195	11	184	140	1	139	54	9	45
Belgium and Luxemburg	210	149	61	210	149	61	.....	.....	.....
Denmark	30	30	.....	15	15	.....	15	15	.....
France	1,928	1,907	21	1,719	1,698	21	209	209	.....
Greece	745	121	624	329	55	274	417	67	350
Italy	926	331	595	784	223	561	142	108	34
Netherlands	303	283	20	276	256	20	27	27	.....
Norway	81	80	1	11	10	1	70	70	.....
Sweden	1	.....	1	1	.....	1	.....	.....	.....
Switzerland	2	.....	2	2	.....	2	.....	.....	.....
Turkey	141	41	100	6	6	.....	134	34	100
United Kingdom	4,769	4,435	334	4,334	4,000	334	435	435	.....
Countries not at Paris Conference	2,305	546	1,759	1,866	337	1,529	439	209	230
Czechoslovakia	247	73	174	204	30	174	42	42	.....
Finland	106	106	.....	71	71	.....	35	35	.....
Germany	767	.....	767	537	.....	537	230	.....	230
Hungary	37	37	.....	10	10	.....	27	27	.....
Poland	439	90	349	379	30	349	60	60	.....
U. S. S. R.	410	242	168	364	196	168	45	45	.....
Yugoslavia	301	.....	301	301	.....	301	.....	.....	.....
Europe unallocable	522	41	481	207	.....	207	315	41	274
Canada	–6	–6	.....	–12	–12	.....	6	6	.....
Latin-American countries	495	473	22	206	184	22	289	289	.....
China	1,328	229	1,099	1,262	163	1,099	66	66	.....
Japan	606	15	591	398	7	391	208	8	200
Korea	170	25	145	48	3	45	122	22	100
Philippines	769	76	693	194	76	118	575	.....	575
All other countries	367	332	35	169	134	35	198	198	.....
Unallocable	411	6	405	405	.....	405	6	6	.....

For detailed explanation see CEA. Report, *op. cit.*, p. 94ff.

INTERNATIONAL NOTES

October 12—November 17

Prepared by the Editorial Assistant, Division of Intercourse and Education

The United Nations

The General Assembly—Major decisions taken by the Assembly since resuming plenary sessions on October 20 to consider the various questions on which its committees had completed action are given below.

Rejecting resolutions put forward by the Soviet Union and Polish delegations, the Assembly, on October 21, approved by a vote of 40 to 6, with 11 abstentions, a United States resolution calling upon the Governments of Albania, Bulgaria, and Yugoslavia on the one hand and Greece on the other to cooperate in a peaceful settlement of their border difficulties and recommending the creation of a special committee to assist them. (For text of resolution adopted, see New York *Herald Tribune*, October 22; for details of the voting on the three resolutions, see *New York Times*, same date; for previous notes on United States proposal, see *International Conciliation* No. 435, p. 779.) Two resolutions dealing with the punishment of war criminals were debated on October 31, the Assembly adopting by a vote of 42 to 7, with 6 abstentions, a British-sponsored resolution approved by the Legal Committee (see *New York Times*, November 1, for text) and rejecting a substitute resolution, moved by the Yugoslav delegation and favored by the other Slav States, asking the Assembly to express "regret" over the failure of certain governments to fulfill their international obligations in regard to the punishment of war criminals. (See *New York Times* and New York *Herald Tribune*, November 1.) On November 1, the Assembly approved the trusteeship agreement for the Island of Nauru submitted by Australia, New Zealand, and the United Kingdom by a vote of 46 to 6, with one abstention, and also approved, by a vote of 41 to 10, with 4 abstentions, a resolution calling upon the Union of South

Africa to submit a trusteeship agreement on South-West Africa. Several other resolutions of the Assembly's Trusteeship Committee, embodying Soviet and Indian proposals for closer scrutiny by the United Nations of the colonial policies of colonial powers, were rejected by the Assembly on November 3. On the same date, the Assembly approved the joint Australian-French-Canadian resolution condemning all propaganda likely to lead to a breach of the peace or to aggression, which the Political and Security Committee had adopted in preference to the Soviet proposal calling for punishment of "warmongers" as criminals. (For text of resolution adopted, see *New York Times*, November 4.)

The resolution creating the Interim Committee to handle political problems between the current and next General Assembly, proposed by the United States and bitterly opposed by the Soviet Union, was adopted by the Assembly on November 13 by a vote of 41 to 6, with the 6 Arab States abstaining; the opposing States —the Soviet Union, White Russia, the Ukraine, Poland, Yugoslavia, and Czechoslovakia—have announced that they will not take part in the Little Assembly. On November 13, the Assembly elected the Ukraine to succeed Poland on the Security Council, after India had withdrawn its candidacy, and filled two vacancies on the Trusteeship Council by electing the Philippines and Costa Rica. (For composition of both Councils, as of January 1, 1948, see *New York Times*, November 14.) A resolution on Korea, proposed by the United States and adopted by the Political and Security Committee on November 5, was approved by the Assembly on November 14 by a vote of 40 to 0, with Denmark, Egypt, Norway, Saudi Arabia, Siam, and Sweden abstaining and the Soviet Union, White Russia, the Ukraine, Poland, Yugoslavia, and Czechoslovakia refusing to vote. The resolution adopted establishes a United Nations Commission (consisting of representatives of Australia, Canada, China, El Salvador, France, India, the Philippine Republic, Syria, the Ukrainian Soviet Socialist Republic) to facilitate and expedite the establishment of Korean independence; recommends the holding of elections not later than March 31, 1948, and the withdrawal from Korea of all occupa-

tion forces within 90 days after the formation of a Korean National Government.[1] (See *New York Times*, November 6, for text.)

The Assembly voted on November 15 to hold its next year's session in Europe and unanimously approved agreements bringing the International Bank for Reconstruction and Development, the International Monetary Fund, the Universal Postal Union, the International Telecommunications Union, and the World Health Organization into relationship with the United Nations as specialized agencies.

The World Health Organization—The speedy action of WHO in organizing aid to Egypt during the recent cholera epidemic provided a dramatic demonstration of its value to humanity. Relief supplies were secured from Brazil, China, France, Iran, Iraq, Italy, Switzerland, Tunisia, the Soviet Union, the United Kingdom, and the United States. Airplane shipments of blood plasma and of anti-cholera vaccine and other medicines and equipment for combating the disease were flown directly from La Guardia Field, New York, in October and early November. The International Health Conference convoked by the Secretary-General of the United Nations in compliance with the Economic and Social Council's directive of February 15, 1946, met in New York from June 19–22, 1946, to draw up a Constitution for the WHO. Signed at once by fifty-one United Nations Members and ten

1 The Korean problem was placed before the General Assembly by Secretary of State George C. Marshall on September 17. Under instructions from Moscow, Col. Gen. Terentyi Shtikov, chief of the Soviet delegation to the Joint United States-Soviet Commission at Seoul, submitted to the Commission on September 26 a proposal for the simultaneous withdrawal of Soviet and United States forces from Korea by the beginning of 1948 to permit the Koreans to form a government themselves. Mr. V. M. Molotov, Soviet Minister of Foreign Affairs, in a letter to Secretary of State Marshall on October 9, charged that the United States delegation at Seoul was hindering the solution of the Korean question by not replying to the Soviet proposal. (See *New York Times*, October 12.) In reply, Under Secretary of State Robert A. Lovett said that when submitting its resolution to the Assembly the United States had called "specific attention" to the Soviet proposal in the hope that "having both proposals before it the General Assembly would be able to recommend a solution of the problem," and that the United States Government considered that the matter was in the hands of the United Nations. The Soviet delegation to the Joint Commission was subsequently recalled from Seoul.

non-members, it has since received signatures of other countries, and will come into force when ratified by twenty-six Members of the United Nations. Meanwhile, an Interim Commission of eighteen members has directed activities begun by the League of Nations and the United Nations Reconstruction and Rehabilitation Administration and has formulated new projects, some of which are in operation. Technical aid in the control of disease and rehabilitation of the crippled has been offered to fourteen countries, and WHO field missions have already been established in seven—Austria, China, Ethiopia, Greece, Hungary, Italy, and Poland. Under WHO auspices also, a selected number of doctors and public health specialists of war-ravaged countries are being given opportunity to study at world centers of medical knowledge.

The United Nations Educational, Scientific and Cultural Organization—With delegates of thirty-two countries in attendance, the second general assembly of this specialized agency of the United Nations opened at Mexico City on November 6. After approving applications of Austria, Hungary, Italy, and Switzerland for membership in UNESCO on November 7, the general assembly heard a report on the work of the Organization in 1947, prepared by the Director General, Dr. Julian Huxley, and adopted an agenda amendment proposing that the 1948 budget be voted upon before adopting a program of work. The delegates agreed on November 13 to limit the 1948 budget to $8,000,000, which is $500,000 under the tentative estimate mentioned in the Director General's report.

The International Trade Organization—Final agreement on the formation of the ITO waits on the outcome of the United Nations Conference on Trade and Employment opening at Havana on November 21. The draft Charter for the Organization was completed at Geneva on August 22 by a Preparatory Committee appointed by the Economic and Social Council of the United Nations (see *International Conciliation*, No. 434, for text). In addition to the drafting of the Charter, the nations represented at the Geneva Conference also undertook "a downward revision of tariffs through an interlacing system of bilateral agreements." (See *New York Times*, October 31.) The final act of the Geneva

Trade Conference was signed on October 30 by twenty-three nations; Belgium, Canada, Luxemburg, the Netherlands, the United Kingdom, and the United States also signed a protocol making the general agreement on tariffs and trade effective January 1, 1948. Concessions granted and obtained by the United States under the agreements were made public by the Department of State on November 17. (See *New York Times* or New York *Herald Tribune*, November 18, for details.)

Anglo-Burmese Treaty

A treaty providing for the independence of Burma by January 6, 1948, was signed at London on October 17 and made public at London and Rangoon on October 27, when the Burma independence bill was introduced in the House of Commons. The measure was approved by a vote of 288 to 114 on November 5.

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